2004

Ontario Budget

The Plan For Change

The Honourable Greg Sorbara
Minister of Finance

Budget Papers

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PAPER A

Ontario's Finances

Introduction

After the election in October 2003, the Premier-designate asked former Provincial Auditor Erik Peters to conduct an independent review of the Province's finances. Mr. Peters concluded that Ontario faced a projected deficit of $5.6 billion for 2003-04, excluding potential risks to the fiscal outlook of up to $1 billion that could cause the deficit to worsen by year-end.

The 2003 Economic Outlook and Fiscal Review, released by the Minister of Finance in December, showed that the deficit identified by Mr. Peters was not a one-year anomaly in an otherwise healthy fiscal situation. It was a structural deficit caused by several years of much faster growth in program spending than in government tax revenues. Unless addressed, this fiscal imbalance would lead to continued chronic and unacceptable budgetary deficits over the medium term.

The 2004 Budget addresses the structural deficit inherited from the previous government by putting in place a balanced and responsible approach to deficit reduction over the medium term, while providing funding for necessary programs and services to the public. As part of the government's multi-year fiscal plan, the interim deficit of $6.2 billion in 2003-04 will be reduced to $2.2 billion in 2004-05, $2.1 billion in 2005-06 and $1.5 billion in 2006-07. Ontario's books will be balanced by 2007-08.

With this Budget, the Province will begin to transform Provincial spending on programs and services towards a higher level of fiscal responsibility and transparency, both for financial reporting and planning purposes. This approach is based on the following key principles:

- Fiscal planning should meet the priorities of the people of Ontario. In this Budget, the government sets out a clear multi-year plan to balance the budget and strengthen the services people want and need most. These priorities are success for students, healthier Ontarians, prosperity for people, strong communities and stronger democracy.
- Government should live within its means by aligning spending and revenue. The Province should also use prudent measures such as including a reserve for budgeting to help ensure that a fiscal plan can accommodate unexpected and adverse changes in the economic and fiscal outlook.
- All Provincial spending, ministry plans and activities should produce specific results expected to be achieved over several years.
- Financial planning and reporting should be more transparent. Budgets should openly discuss risks and how the government intends to manage or offset them.

This new approach will help the government create a fiscal plan that is responsible, realistic and sustainable. It will also help to ensure that the people of Ontario better understand fiscal plans and results, while improving upon previous approaches to fiscal planning and management.

In his report, Mr. Peters urged the incoming government to consider legislation that would improve fiscal accountability through greater transparency. In response to Mr. Peters' advice, this government will table the proposed Fiscal Transparency and Accountability Act.

This paper also highlights major sensitivities or risks to the fiscal plan that could occur from unexpected changes in economic conditions or program demands. The fiscal plan includes a reserve to provide protection against such risks. Understanding these risks helps the public and decision-makers better understand potential long-term cost pressures and their implications for the fiscal plan.

The last section of this paper discusses upcoming changes in accounting policies that will have an impact on the Provincial "reporting entity"—that is, the organizations included in the fiscal plan and financial reports of the Province—in the future. These changes reflect new guidelines from the Public Sector Accounting Board, which recommends accounting policies for governments in Canada. The impact of these changes in accounting policies will be to include hospitals, school boards and colleges in the Province's financial statements starting with the 2005-06 Public Accounts of Ontario, and in the subsequent Ontario Budget.

In line with the new approach to fiscal planning and reporting, this paper will provide an overview on:

- **Section I**: Planning for Results;
- **Section II**: Medium-Term Plan and Fiscal Outlook;
- **Section III**: Ontario's 2004-05 Fiscal Plan;
- **Section IV**: Interim Performance for 2003-04;
- **Section V**: Potential Risks and Cost Drivers; and
- **Section VI**: Changes in the Reporting Entity.

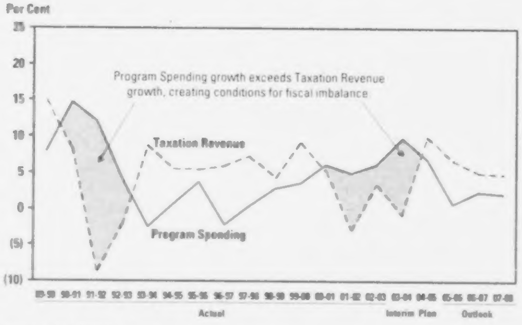
Section I: Planning for Results

More Responsible and Transparent Fiscal Policy

Between 2000-01 and 2003-04, Provincial program spending increased by 22 per cent, far exceeding tax revenues, which declined by 0.6 per cent during this period. This imbalance between Provincial spending and revenue created a fiscal situation that was not sustainable in the long run and resulted in a structural or permanent deficit, unless further action was taken. While the new government immediately took action to provide a stronger revenue base, this alone could not correct the fiscal imbalance. It was clear that the Province could not simply grow its way out of this structural deficit position.

After the surplus recorded in 1989-90, program spending growth significantly exceeded taxation revenue growth in two distinct periods. In both periods, this sizable "gap" between program spending and taxation revenue growth rates signalled the creation of persistent and structural fiscal imbalances.

Taxation Revenue and Program Spending Growth



Source: Ontario Ministry of Finance

During the early 1990s, the Province recorded its single largest deficit at $12.4 billion in 1992-93. After nine straight years of deficits, the Province returned to a surplus in 1999-2000. However, starting in 2000-01, program spending growth once again began to outpace taxation revenue growth, gradually creating the conditions for continued future fiscal imbalances that are now observed. Part of this government's plan to eliminate the structural deficit is to gradually bring taxation revenue and program spending growth rates more closely in line, by putting in place a budget process that focuses on results and on reducing long-term cost curves to more affordable and sustainable levels.

Budgeting for Results

The government is committed to delivering measurable improvements in key public services. This Budget represents a first step towards implementing a new approach to planning and budgeting that will significantly improve accountability to the people of Ontario—Budgeting for Results. Governments around the world are developing similar approaches, motivated by the need to know the value-added of any money spent, rather than simply by a need to know how much is spent on a particular program or activity. While amounts of money spent are easy to measure, understanding the meaning of that spending is difficult without additional information. Without such information, it is difficult for the public to hold the government accountable. Budgeting for Results has three main components:

- Clearly setting priorities and measurable results over a medium-term time frame;
- Integrating those results into a planning and budgeting process that considers all of government spending rather than only what is new or different; and
- Consistently monitoring and reporting on the extent of progress against expectations.

For the provincial government, this year in particular will be a learning process and a period of transition towards Budgeting for Results. Measures that can track progress will be developed and relevant targets for achievement will be set. As the planning and budgeting processes evolve to reflect this new approach, the government will present the Budget in ways that better integrate information on resources, results and risks. This type of reporting will better align the expectations and actions of government and its partners in the broader public sector.

Priorities and Key Results

Prior to the development of this Budget, the government engaged the public in an unprecedented consultation process. Through these extensive consultations, important priorities became clearer, as did the approach to developing the results associated with each priority.

Provincial programs must reflect priorities, achieve improved results that can be documented through evidence and, above all, remain affordable. Increased spending alone does not guarantee success for students, healthier Ontarians, prosperity for people, strong communities or a stronger democracy.

Public resources will be focused on achieving clearly defined results associated with these priorities, such as students realizing greater success in literacy and math scores; reduced waiting times leading to healthier Ontarians; higher educational achievement and increased job creation generating prosperity for people; a higher quality of life strengthening the province's communities; and more people actively contributing to their communities, creating a stronger democracy.

Later this year the government will release its first list of results and measures. Budget Paper E, *A More Transparent and Accountable Budget*, provides more details on Budgeting for Results and outlines the government's vision for reforming the budget process to make it more transparent and accountable.

Fiscal Transparency and Accountability Act

In October 2003, former Provincial Auditor Erik Peters released a report on the finances of the Province. His report noted that transparency can be more effective in ensuring fiscal accountability than rigid balanced-budget rules. Other governments, international institutions and public-finance academics have also stressed the connection between transparency and responsible fiscal policy.

The government plans to introduce the proposed Fiscal Transparency and Accountability Act (FTAA). If passed by the Legislature, the FTAA would create a framework for the conduct of sustainable fiscal policy and strengthen the government's reporting requirements. This proposed legislation would require a pre-election report on the Province's finances. For further details on the proposed provisions, please refer to Budget Paper E, *A More Transparent and Accountable Budget*.

Effective and Efficient Government

As a steward of public funds, the government must ensure that the money entrusted to it by its citizens is used in the most effective and efficient way possible. This stewardship role includes ensuring proper fiscal and financial management and continuously reviewing government's activities to ensure their continued relevance to the priorities of government and the key outcomes of importance to the public.

Improving Financial Management Skills

Efficient and trustworthy financial management is a cornerstone of good government. The Modern Controllership initiative led by the Ministry of Finance aims to update key skills in those areas throughout the Ontario Public Service (OPS).

- Since the inception of the Modern Controllership program four years ago, approximately 14,700 days of training have been provided to staff across government in such key areas as accounting, risk management, values and ethics, and integrated decision-making.
- A risk management policy, framework and "how-to" guide were created and are now in use throughout the government.
- In 2004, the implementation of the first release of a new Integrated Financial Information System (IFIS) across government will be completed. IFIS will provide more timely, consistent and useful financial information for planning, budgeting, managing and reporting.

- Accrual-based appropriations commencing with the 2003-04 fiscal year (proposed amendments to the *Financial Administration Act* to provide legislative spending authority retroactive to April 1, 2003 to pay the residual accruals existing at that time will be brought forward).

The 2003 Annual Report of the Office of the Provincial Auditor noted the progress made in improving financial management across the OPS, but also concluded that if the government was to fully realize the return on these investments, it would need to take further steps. In response to this advice and input from ministries, the Ministry of Finance is expanding its training programs, increasing its ability to provide expert advice and making seed money available for specific projects that will build ministries' skills and abilities in financial management.

Better Management of Provincial Assets

The Government of Ontario owns and manages a wide variety of assets on behalf of the people of Ontario. As part of the continuous review of government activities, the government will undertake a review of major Provincial assets to determine whether they are being managed effectively and efficiently and they are providing the maximum return to the citizens of Ontario. This review will ensure that in all cases the public interest is promoted and protected and that the continued role of the government in owning and managing these assets is consistent with the ongoing priorities of the people of Ontario.

The government will review its assets to determine whether:

- Holding ownership of these assets is consistent with the ongoing priorities of government;
- The public interest is adequately protected and promoted; and
- The assets are being effectively and efficiently managed.

Through the consultation process, Ontarians have indicated their desire to retain the Liquor Control Board of Ontario (LCBO) as a government entity given their satisfaction with the service and the annual revenue generated. Ontarians also expect that organizations such as the LCBO be run as effectively and efficiently as possible so that the revenue from the LCBO is maximized and invested in key priorities such as education and health.

In order to ensure that the people of Ontario continue to obtain the best long-term sustainable results from this valuable public asset, the Ministry of Economic Development and Trade, with the support of the Ministry of Finance, will initiate a third-party independent operational review of the LCBO.

The Ministry of Finance will be reviewing the Province's policies and practices related to accounts receivable to ensure that monies owed to the government are collected.

The Ministry of Finance will also improve the efficiency of the government's cash resources, by implementing more standardized cash management practices and through greater use of online banking technologies.

Modernizing Ontario's Systems for Tax Administration

Ontario is determined to be a world leader in tax administration. To achieve this goal, the government will modernize current information systems to deliver state-of-the-art tax administration services. On the service side, the new system will be flexible, efficient and more effective by simplifying, streamlining and integrating processes. Additional service and tax advisory staff will be hired to assist those taxpayers who are making every effort to understand and voluntarily comply with Ontario's tax laws. These service improvements will make it easier than ever to voluntarily comply with Ontario's tax laws.

On the enforcement side, smarter tax processing methods, combined with additional enforcement staff, will improve voluntary compliance by discouraging those taxpayers who base their tax compliance on the perceived risk of being caught. New, more interconnected tax systems will also help the Ministry of Finance to combat the underground economy and those individuals who defy tax laws.

Once implemented, Ontario will have a modern, state-of-the-art tax administration system. Enhanced services will make complying with Ontario's tax laws as easy and convenient as possible, while those who choose not to voluntarily comply will face the full weight of the law. The overall result will be a more level playing field, where everyone pays their fair share.

Section II: Medium-Term Plan and Fiscal Outlook

Medium-Term Fiscal Plan

This government is taking a balanced approach to dealing with the structural deficit—one that recognizes the immediate needs of its public-sector partners and the need to deliver on necessary public services. Trying to force a balanced budget in the short term, through large and indiscriminate spending cuts, would only erode necessary public services. As a result, the government is setting out a clear multi-year fiscal plan to gradually reduce the deficit and eliminate it by 2007-08.

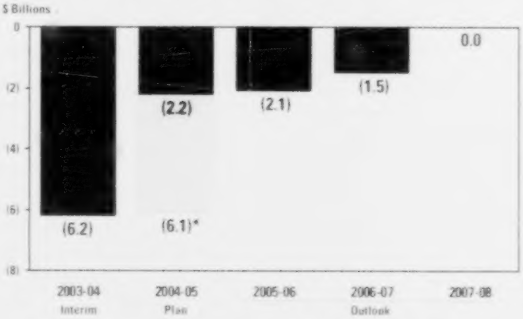
The government's partners in providing vital services to the people of Ontario—hospitals, school boards, universities, colleges and others—need greater financial certainty to plan their activities more rationally. This longer-term plan will allow them to focus on improving the quality of their services while transforming these services to make them sustainable and affordable.

Plan to Eliminate the Structural Deficit

A moderate and sustainable approach to fiscal planning is a priority of this government. To preserve Ontario's economic health, to protect services people value, and to put Ontario on a path of fiscal sustainability and accountability, the government is committing to a medium-term plan to balance the budget. The plan includes steadily declining deficit targets of $2.2 billion in 2004-05, $2.1 billion in 2005-06, $1.5 billion in 2006-07 and a balanced budget by 2007-08. In 2004-05, the deficit target of $2.2 billion includes a one-time revenue gain of $3.9 billion related to the projected elimination of the liability for power purchase agreements with non-utility generators, if the proposed new electricity market structure is passed by the Legislature and is in place.

Over the medium term, the government will be transforming its programs and services to be more accountable, affordable and results based. Through this transformation of government programs and services and by holding program spending growth to less than the rate of growth in tax revenues over the medium term, the government will eliminate Ontario's structural deficit without putting priorities at risk.

Eliminating the Structural Deficit



* Excludes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generators power purchase agreements. Further details are provided later in this section.
Source: Ontario Ministry of Finance.

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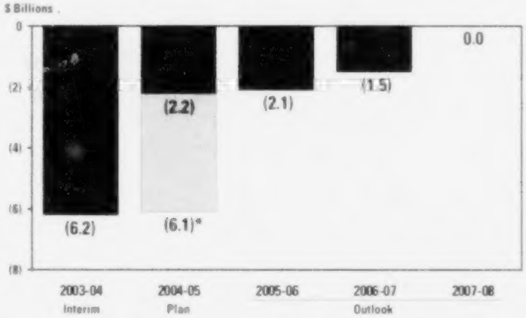


* Excludes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements. Further details are included later in this section.
Source: Ontario Ministry of Finance

Medium-Term Fiscal Outlook

This government faces many challenges to ensure that public services are funded on a sustainable basis, both now and in the future. The broader public sector, including management and unionized and non-unionized employees are being asked to be modest in their expectations around compensation increases. The focus of the government is to achieve clearly defined results for the people of Ontario and this will require transformation in the way public services are delivered.

The following table outlines the current medium-term plan and fiscal outlook for the Province, including details of key revenue sources and planned spending for key sectors through to 2007-08.

This medium-term fiscal outlook incorporates the impacts of all revenue and expense measures introduced in the 2004 Budget and reflects the Ontario economic outlook outlined in Budget Paper B, *Ontario's Economy*.

Medium-Term Plan and Fiscal Outlook
($ Billions)

	Plan	Outlook		
	2004-05	2005-06	2006-07	2007-08
Revenue				
Taxation Revenue				
Personal Income Tax	18.8	19.9	21.1	22.4
Retail Sales Tax	15.0	15.9	16.9	17.8
Corporations Tax	8.3	8.6	8.9	9.2
Ontario Health Premium	1.6	2.4	2.5	2.6
All Other Taxes	10.2	10.9	11.2	11.5
Total Taxation Revenue	54.0	57.7	60.6	63.5
Government of Canada	10.8	11.6	11.4	11.8
Income from Government Enterprises	3.6	4.1	4.0	4.1
Other Non-Tax Revenue*	10.0	6.4	6.5	6.6
Total Revenue	**78.4**	**79.9**	**82.5**	**86.0**
Expense				
Programs				
Health Care	29.7	30.9	31.9	32.9
Change Fund - Health Care**	0.6	-	-	-
Education	10.6	11.3	11.7	12.0
Training, Colleges and Universities	4.2	4.3	4.3	4.4
Social Services	9.1	9.4	9.6	9.7
Justice	2.9	2.9	2.8	2.8
Other Programs	9.6	8.5	8.6	8.9
Total Programs	**66.7**	**67.2**	**68.9**	**70.6**
Capital	2.6	2.5	2.5	2.5
Interest on Debt	10.3	10.8	11.1	11.5
Total Expense	**79.6**	**80.5**	**82.5**	**84.5**
Reserve	**1.0**	**1.5**	**1.5**	**1.5**
Surplus / (Deficit)	**(2.2)**	**(2.1)**	**(1.5)**	**0.0**

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

** Expense outlook for 2004-05 includes a one-time Change Fund of $1.0 billion, including $0.6 billion to assist with the transformation of the health care sector.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Revenue

Total revenue in 2007-08 is projected at $86.0 billion, an increase of $7.7 billion or 9.8 per cent over the 2004-05 forecast of $78.4 billion. Apart from $3.9 billion in one-time revenues arising in 2004-05 from the projected elimination of the liability associated with agreements for the purchase of power from non-utility generators, the forecasted growth of revenue between 2004-05 and 2007-08 is 15.5 per cent. Total revenue is expected to grow at 1.9 per cent in 2005-06, 3.3 per cent in 2006-07 and 4.3 per cent in 2007-08.

- Taxation revenue between 2004-05 and 2007-08 is forecast to increase by $9.5 billion, with an average annual growth rate of 5.6 per cent. The average annual projected growth rate of nominal gross domestic product over the period 2005 to 2007 is 5.2 per cent. The maturation of measures proposed in this Budget, particularly the Ontario Health Premium, which would be fully implemented in 2005-06, boosts the growth rate of provincial tax revenues above what would normally be expected given the economic outlook.
- Federal Payments to Ontario are forecast to rise from $10.8 billion in 2004-05 to $11.8 billion in 2007-08, an average increase of 3.1 per cent annually. This projection is consistent with the current federal-provincial transfer arrangements and funding formula.
- Income from Government Enterprises is projected to rise by $0.5 billion between 2004-05 and 2007-08, growing at an average annual rate of 4.8 per cent.
- Other Non-Tax Revenue, which is earned from a wide range of sources, is projected to fall from $10.0 billion in 2004-05 to $6.6 billion in 2007-08. Apart from the one-time revenues included in 2004-05 noted above, the underlying increase in these non-tax revenues is $0.5 billion, an average annual increase of 2.6 per cent.

The revenue outlook incorporates the impact of all measures announced in the *Fiscal Responsibility Act, 2003*, and those proposed in this Budget, including the maturation of the Ontario Health Premium and the annualization and growth expected from all other revenue measures. For more information on revenue measures, see Budget Paper C, *Ontario's Revenue Plan*.

Expense

Over the medium term, total expense will rise by $4.9 billion from $79.6 billion this year to $84.5 billion in 2007-08. Total expense growth will average 2.0 per cent annually over this period, down from the 6.9 per cent rate of growth planned for 2004-05, a transition year as the Province moves to results-based fiscal planning and budgeting. Over this time period the projected operating plans of 15 ministries are either declining or are flatlined.

This slowing of Provincial spending growth over the medium term reflects:

- The maturing of the results-based planning process with improved accountability in Provincial spending;
- A greater realignment of fiscal planning and budgeting to focus on the government's priorities and results; and
- A one-time Change Fund of $1.0 billion established in 2004-05 to facilitate the transformation to results-based planning.

In keeping with the government's strategy of a sustainable fiscal policy and the elimination of the structural deficit, program spending will increase at an average annual rate of 1.9 per cent between 2004-05 and 2007-08, well below projected taxation revenue growth, which will average 5.6 per cent annually over this period.

In order to obtain best value for taxpayers' money, the government will intensify an ongoing program review process starting immediately. This will help to ensure that all Provincial programs achieve desired results and outcomes, and that these programs are delivered in an efficient and cost-effective manner. The expense outlook includes a program review savings target of $200 million in 2005-06, $400 million in 2006-07 and $750 million in 2007-08. These program review targets represent less than 0.3 per cent of total expense in 2005-06 and less than one per cent of total expense at maturity in 2007-08.

Reserve

Reserves of $1.5 billion for 2005-06 and beyond have been included in the medium-term fiscal outlook to protect against unexpected and adverse changes in the economic and fiscal outlook. These reserves have been increased from the $1.0 billion reserve included in the 2004-05 fiscal plan to better reflect the inherent risks and uncertain nature of medium-term fiscal projections. The government will review its policy on reserves in the coming year, to ensure the levels of reserves continue to remain appropriate.

The remainder of this section provides an overview of the medium-term directions and change strategies for key sectors, including health, education, post-secondary education, social services, the electricity sector and municipalities.

Health Sector—Budgeting for Results

Ontario is committed to improving our universal medicare system. The Province will work with health care providers, institutions and federal, municipal and other provincial governments to begin to improve our health care system. The objective is to achieve a health care system that delivers high-quality, results-focused and patient-centred health care to Ontarians where and when it is needed. The performance of the system will be measured based on results, and funding will be targeted to ensure that the results Ontarians want are met, including reduced wait times and access to primary care.

Sustainable health care spending is not about cutting health care spending—that is neither desirable, nor realistic. It is about investing wisely in a system that delivers tangible results in an accountable, efficient and cost-effective manner and that not only focuses on curing illness, but also on health promotion and prevention. Health care costs cannot continue to grow faster than the rate of economic growth over the long term. The Province is devoting an increasing share of its program spending to fund health services. The Ministry of Health and Long-Term Care now accounts for 45 per cent of Provincial program spending. There are many pressures on the health care system such as an aging and growing population, rising utilization for existing services, the costly demand for access to new medical technology, wage settlements and emerging public health threats from an increasingly connected world. This rate of increase is not sustainable, and can only lead to the continued "crowding out" of available funding for other priorities in the future.

Healthier Ontarians

The health of Ontarians is about more than the amount of funding directed to the health care system through the Ministry of Health and Long-Term Care. For many years, academics and governments have been gaining a better appreciation of the importance of a broad range of factors that contribute to the health of populations. Adequate housing, proper nutrition, secure employment, educational achievement, and clean air and water—all of these factors and others play vital roles in creating and sustaining health. These have become known as the broader determinants of health and governments play a key role in shaping them, as well as the delivery of health care services.

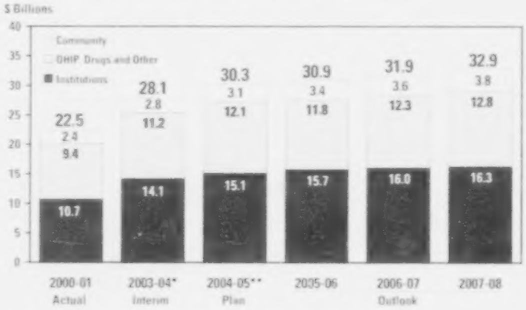
The concept is easy to understand but has profound implications for government. Continued rapid growth in Provincial spending on health care, without changing health care delivery, will not by itself result in healthier Ontarians and will not create a healthier Ontario. As a society, investments must be balanced across the range of health-creating and sustaining activities. Just as the determinants of health are broader than health care, funding for health must be broader than just health care funding. In this Budget the government is beginning to report on investments that support the goal of healthier Ontarians.

Key Change Strategies

Over the medium term, the government will invest in several key change strategies for the health care sector to keep Ontarians healthy and provide the high quality of services Ontarians expect. The health care system will be driven by the needs of patients and be evaluated based on results, not just the amount of dollars spent.

Ontarians want to be able to receive health care in their communities and want a health care system that will help them stay healthy and will care for them when they are ill. Roy Romanow called home care the next essential service. Services that were previously provided in institutions now can often be delivered at home, offering greater dignity and quality of life and, in many instances, be less costly to provide.

Health Operating Spending



* Excludes SARS-related health costs of [illegible] and [illegible] one-time costs of $214 million.
** Includes $[illegible] million for initiatives funded through the Ontario Fund in 2004-05.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The following health care investments are what Ontario can afford within the existing fiscal plan and will provide for a good start in changing the health care system. When additional funds are available from the federal government, further investments will be made to continue the transformation of the sector and to support key health priorities.

Shorter wait times for key services are needed. As reported by Cancer Care Ontario, some cancer patients are waiting 13 weeks or longer to receive radiation treatment. Ontarians wait an average of 24 days for important cardiac surgeries, the second-longest wait time in Canada. *Over the next four years, the government intends to reduce wait times for cancer, cardiac, cataract, MRI/CT and joint-replacement services.* Specific results and outcomes to be achieved include:

- Funding will be provided for an additional 9,000 cataract surgeries each year and for nine new MRI/CT sites by 2005-06. As well, the government plans to increase the number of cardiac services by over 36,000 procedures per year, provide 2,340 additional joint replacements per year, perform 425 extra organ transplants per year and expand dialysis treatments by 529,000 annually by 2007-08.
- Wait time information will be improved by updating the cardiac and cancer radiation registries this year, and in 2005-06, the tracking of information on hip- and knee-joint replacements will be added.

Key Change Strategies

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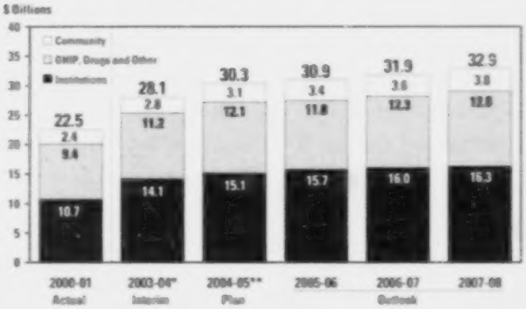


* Excludes SARS-related health costs of $629 million and major one-time costs of $214 million.
** Includes $609 million for initiatives funded through the Change Fund in 2004-05.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The following health care investments are what Ontario can afford within the existing fiscal plan and will provide for a good start in changing the health care system. When additional funds are available from the federal government, further investments will be made to continue the transformation of the sector and to support key health priorities.

Shorter wait times for key services are needed. As reported by Cancer Care Ontario, some cancer patients are waiting 13 weeks or longer to receive radiation treatment. Ontarians wait an average of 24 days for important cardiac surgeries, the second-longest wait time in Canada. *Over the next four years, the government intends to reduce wait times for cancer, cardiac, cataract, MRI/CT and joint-replacement services.* Specific results and outcomes to be achieved include:

- Funding will be provided for an additional 9,000 cataract surgeries each year and for nine new MRI/CT sites by 2005-06. As well, the government plans to increase the number of cardiac services by over 36,000 procedures per year, provide 2,340 additional joint replacements per year, perform 425 extra organ transplants per year and expand dialysis treatments by 529,000 annually by 2007-08.
- Wait time information will be improved by updating the cardiac and cancer radiation registries this year, and in 2005-06, the tracking of information on hip- and knee-joint replacements will be added.

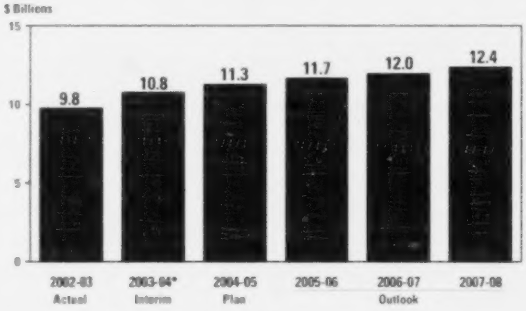
- An Ontario Health Quality Council will be established this year to report annually to the public on how well Ontario's health care system is working. Funding of $1 million in 2004-05, growing to $2 million by 2007-08, will be provided for this initiative.

As a key change strategy for the health care sector, primary care and community-based care will be expanded over the medium term, providing a cost-effective alternative to more expensive institutional care. Specific results and outcomes related to this change strategy include:

- 150 Family Health Teams will be established, composed of physicians, nurse practitioners and other health care providers, that will provide comprehensive primary health care to Ontarians on a 24/7 basis. In 2004-05, an additional $111 million will be provided to support primary care from the Change Fund.
- Community Health Centres (CHCs) will receive a funding increase of $14 million in 2004-05 to enhance primary care delivery at 54 existing CHCs to fund expansion in communities lacking adequate primary care services.
- By 2007-08, enhancements to home care will provide an additional 95,700 Ontarians annually with care in their homes and provide end-of-life care to another 6,000 clients each year. This investment will bring total funding for Ontario's Community Care Access Centres to $1.3 billion in 2004-05, increasing to $1.7 billion in 2007-08.
- $10 million will be provided through a not-for-profit agency to help patients and their families acquire medical equipment for home use.
- Long-term care facilities funding of $2.5 billion in 2004-05 reflects the opening of an additional 3,760 beds this year to facilitate appropriate settings for care, and improvements to the safety and quality of care provided to residents of these facilities. As well, there will be a three per cent increase in the comfort allowance for residents of long-term care facilities.
- Community mental health services will be expanded to serve an additional 78,600 patients annually by 2007-08 and include increased access to case management, crisis response and early intervention services. The Province will be providing $463 million in 2004-05, growing to $583 million in 2007-08, for these services.

While community-based care will increasingly play a key role in the health care system in the future, hospitals will continue to play a significant role. Hospitals have requested multi-year funding. In 2004-05, Ontario's hospitals will receive $11.3 billion in Provincial operating support to ensure that they can continue to provide essential health care services. Over the period from 2003-04 to 2007-08, hospital funding will increase at an average annual rate of 3.4 per cent. By putting more resources into community care and focusing more on prevention, people will be able to leave the hospital sooner, and inappropriate admissions will be avoided. Ontario's hospital system will be able to focus on those with the most acute needs.

Hospital Operating Funding



* Excludes costs of $65 million for one-time special assistance to hospitals.
Source: Ontario Ministry of Finance.

Ontario has developed a good model for treating illness, but it has not had an effective strategy for keeping people healthy. The recent Campbell and Walker reports both indicated that major changes are needed in public health. The government intends to move aggressively to give all Ontarians the resources and support they need to achieve good health. *Focusing on healthy living, illness prevention and health promotion will, in the long run, be the best way to lower cost curves for health care.* Specific results and outcomes to be achieved include:

- The public health system's capacity to better manage infectious disease control will be improved by providing $273 million in 2004-05, growing to $469 million in 2007-08, to increase the share of public health costs covered by the Province from 50 per cent to 75 per cent by 2007. With an initial investment in 2004-05, the Province will begin the restructuring of the public health system, including the creation of an independent public health agency to provide laboratory and epidemiological services and to translate research and information into practical assistance, tools, advice and support to Ontario's health care providers.
- Three new vaccines will be added to the children's immunization program in 2004-05 (for chickenpox, meningococcus and pneumococcus) to reduce the incidence of these preventable diseases at a cost of $156 million over three years.
- The Province will continue to provide all Ontarians with influenza shots in workplace and community settings.
- The government is committed to providing a smoke-free environment in work and public places within three years.

- This year, the government will invest more to promote healthy lifestyles, better medication management and, where appropriate, alternatives to drugs and potentially lower cost drugs for seniors.
- The ability to train high school students in the use of cardiopulmonary resuscitation (CPR) will be enhanced by support to the Advanced Coronary Treatment (ACT) Foundation. Funding to the ACT Foundation, along with private-sector contributions, will allow the foundation to train high school teachers and provide schools with CPR equipment.
- Funding for the Aboriginal Healing and Wellness Strategy will be increased by $5 million to provide additional health and social services.
- The Province will help children from low-income families arrive in class ready to learn by providing an additional $4 million annually to community organizations that provide school-based children's breakfast programs.
- Through the Active 2010 program, the government will promote increased participation in sport and physical activity, particularly for children, youth and low-income individuals.

In the past, the health care system has not made full use of information technology in the delivery of health care services. *The government is implementing e-Health initiatives to use information technology to modernize health care service delivery and help achieve health system integration.* Projects under the e-Health initiative, to be funded through a $78 million Change Fund investment, include:

- Developing a system to provide emergency rooms with electronic access to Ontario Drug Benefit recipients' drug history records.
- Setting standards for information technology in the health system through the Ontario Health Informatics Standards Council.
- Setting up an Electronic Patient Record system in London that will ultimately allow two academic health science centres serving multiple sites to share electronic patient records between health care providers, while protecting patients' privacy.

Ontario is experiencing a shortage of family doctors that currently affects more than 130 communities, including some of the major cities. Work is also underway to create more full-time jobs for nurses and improve their working conditions. *Over the next year, the Ministry of Health and Long-Term Care will work with the Ministry of Training, Colleges and Universities to implement a comprehensive health human resource development strategy designed to increase the supply of highly trained health care professionals.* Specific results and outcomes to be achieved include:

- The Province will more than double the opportunities available to international medical graduates, from 90 to 200 positions. Funded through the Ministry of Health and Long-Term Care, the assessment program will be expanded and the number of postgraduate training positions for international medical graduates will increase at a cost of $12 million in 2004-05, growing to $25 million in 2007-08.

- The number of clinical education spaces for nurse practitioners will be doubled, from 75 to 150 spaces in three years through an investment of $2 million annually beginning in 2005-06.
- Starting this year, $2 million will be made available each year to support experienced nurses who mentor nursing trainees completing their clinical practice training requirements each year.
- To improve working conditions for nurses and help prevent on-the-job injuries, 12,000 bed lifts for hospitals and long-term care facilities will be purchased and installed, at a cost of $60 million in 2004-05 from the Change Fund.

It has often been difficult to develop and accurately measure outcomes in the health care system. Measures like "quality" are difficult to judge and quantify. Accountability requirements are about initiating a new relationship with health care institutions and providers—a relationship that for the first time ties funding to results, rewards good performance and has consequences for poor performance. *Enhanced accountability within the health care system will ensure that scarce dollars are spent more wisely and must:*

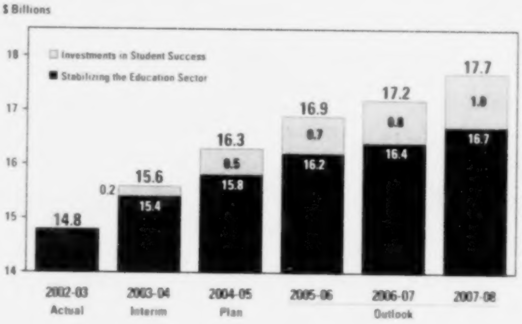
- Align funding to results and outcomes of health services, rather than to inputs, to deliver the highest quality outcomes for Ontarians.
- Ensure efficiency and effectiveness in the delivery of non-core health services such as ordering of supplies for hospitals and other health care providers. An initiative announced in the 2004 Budget called Supply Chain Management in the broader public sector, aims at ensuring efficiency by promoting the integration of the purchasing process and freeing up vital dollars to be spent on key front-line services.

As an alternative to reducing service quality, the government will be discontinuing payment for selected services not mandated under the *Canada Health Act* including optometry for ages 20 to 64, chiropractic services and, with the exception of seniors served through home care and long-term care facilities, physiotherapy services.

Education—Budgeting for Results

The Province is undertaking substantial measures to make Ontario's system of primary and secondary education among the best in the world. The Province will work closely with parents, teachers and school boards to attain measurable improvements in student achievement, particularly in literacy and numeracy.

Grants for Student Needs (GSN)
(School-Year Basis)



To ensure that sufficient resources are available to support ongoing improvements in student achievements, Ontario will make substantial investments in student success over the next four years as shown in the accompanying graph and table. These investments in student success are both within the Grants for Student Needs (GSN) allocation and outside GSN for targeted programs, primarily for literacy and numeracy.

Other Student Success Funding - Outside GSN
(Fiscal-Year Basis – $ Millions)

	2004-05	2005-06	2006-07	2007-08
Targeted Funding	133	250	250	250

In the upcoming 2004-05 school year, Grants for Student Needs will increase by over $650 million including Investments in Student Success. Over the next four years, school board funding will rise by $2.1 billion on a school-year basis, and per-student funding will increase by more than 14 per cent to nearly $9,100 in 2007-08, or over $1,100 per student.

Key Change Strategies

Funding for public education has been limited in recent years, forcing school boards to make difficult choices among competing priorities. In some cases, this has led to insufficient funding for such purposes as maintaining and repairing our schools or for obtaining textbooks and other important learning resources. This environment has contributed to often tense relationships among education partners, and parents have watched as energies were diverted away from the core objective of the education system—supporting student achievement.

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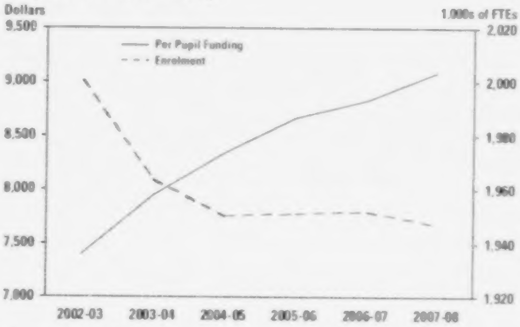

FTEs = Full-Time Equivalents

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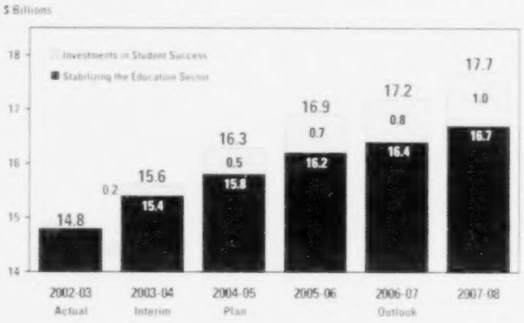

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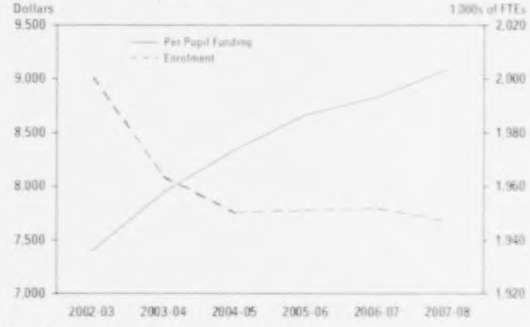

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In order to focus on improving student results, the Province will follow two closely linked approaches. The first is to stabilize the education system by providing a predictable multi-year funding base. For the upcoming 2004-05 school year, stabilization funding for school boards will increase by more than $400 million. Over the next four school years, this funding will increase by more than eight per cent or $1.3 billion, including a substantial annual fund for school repair and renovation. The Ministry of Education will announce details shortly. This substantial investment will not only ensure that school boards have sufficient funds to meet operating costs, maintain our schools and make available more textbooks and resources, but also provide a platform for improved student achievement.

The second approach is to pursue excellence in education and student success. Province-wide test results for 2002-03 indicate that among Grade 6 students, 56 per cent or fewer met Provincial standards for reading, writing and math. Over the next four years, the government will implement a number of strategies to improve student results in reading, writing and math by age 12. The Province aims to achieve the following results by the 2007-08 school year.

- 75 per cent of students will reach the Provincial standards on province-wide reading, writing and mathematics tests.
- A cap of 20 students per class from junior kindergarten to Grade 3 will be implemented.

To support the achievement of these results, the Province will make Investments in Student Success by enhancing Grants for Student Needs (GSN) to school boards by over $450 million in the 2004-05 school year, growing to over $1 billion by the 2007-08 school year. These funds will be earmarked to implement the cap on class size from junior kindergarten to Grade 3 and to provide additional supports to students who need help the most.

In addition, other student success funding outside GSN will provide $133 million in the 2004-05 fiscal year, annualizing to $250 million in 2005-06, primarily for targeted literacy and numeracy programs. Over the next four years, these funds will be used to:

- Establish a literacy and numeracy secretariat to support teachers and focus efforts in achieving success in reading, writing and math.
- Train 4,000 new teacher specialists, bringing the total to 8,000 teachers trained in best practices and effective techniques for teaching literacy and numeracy.
- More than double, from 42 to over 100, the number of schools that receive extra support to improve learning outcomes. Through this program, "turnaround" teams of experienced teachers and administrators will provide help to schools with consistently below average achievement results.

The Ministry of Education will work with school boards and schools to develop results targets and to monitor achievement. These performance indicators, to be developed with education partners, will be published annually.

It is not sufficient, however, to limit attention only to the primary grades. The system must provide the right supports to enable every student to reach his or her highest possible level of achievement. A recent study suggests that up to 25 per cent of Grade 9 students may leave school without graduating. The 2001 Census indicates that nearly 190,000 (13 per cent) of Ontario's 20- to 29-year-old population had not completed a high school diploma.

The Ministry of Education will work with the Ministry of Training, Colleges and Universities to develop a comprehensive "learning to 18" strategy to increase the number of students staying in school, completing their secondary school studies and going on to training or post-secondary education. To support the development of this strategy, the Province will:

- Support pilot projects intended to bring together community resources to help at-risk youth remain in school and graduate, through funding of $3.5 million over the next four years.
- Promote college education among at-risk high school students by enhancing the School-College Work Initiative by $1 million in 2004-05, annualizing to $2 million in 2005-06.
- Acquire up-to-date equipment for secondary school students pursuing technological education by providing $20 million in 2004-05.
- Provide new academic upgrading and training options for high school leavers by increasing funding through the Ministry of Training, Colleges and Universities by $2 million in 2004-05, growing to $15 million in 2007-08.
- Provide 1,500 $1,000 scholarships annually for high school leavers who return to complete their high school credentials and enter apprenticeships, through funding of $3 million in 2004-05, growing to $4.5 million annually by 2005-06. This initiative also includes a $2,000 signing bonus for employers to encourage them to train these young people as apprentices.

An adequate supply of well-trained teachers is crucial to support the education transformation plan. Therefore, the Province will enhance the number of teacher-training spaces by 1,000 in 2004-05 and 2005-06. This enhancement would augment the 5,700 teachers currently being trained each year and require an additional investment of $15 million over two years.

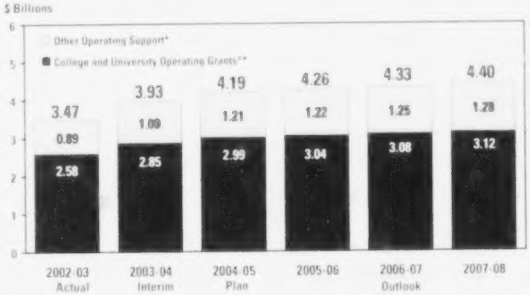
Over the coming weeks, the Ministry of Education will be announcing further details on education funding and on strategies to improve student achievement.

Training, Colleges and Universities—Budgeting for Results

In today's knowledge-based economy, quality education and training programs are needed to help Ontarians reach their full potential. A well-educated and trained workforce provides the economy with a clear competitive advantage.

Colleges and universities play a crucial role in providing the knowledge and skills for Ontarians to succeed. The Province will ensure that Ontario's colleges and universities remain a quality system that ensures access and affordability.

Training, Colleges and Universities
Operating Spending



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Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

To support post-secondary education and apprenticeship and training programs, the operating spending of the Ministry of Training, Colleges and Universities will increase by $260 million to $4.2 billion in 2004-05. By 2007-08, the Ministry's funding will increase by $470 million, or 12 per cent, compared to 2003-04.

Key Change Strategies

Ontario will work with students, parents and institutions to transform the post-secondary education sector in order to create an accessible, affordable, accountable and quality system. The Province's aim is to increase attendance at post-secondary education institutions and to design a more co-ordinated system with increased specialization and reduced duplication. This will allow students to maximize their learning objectives.

To transform the post-secondary education system, the Province will take the following steps:

- A comprehensive review will be undertaken by former Premier Bob Rae that is aimed at creating a sustainable funding framework for the post-secondary education sector based on effective use of the resources provided by government, students and the private sector.

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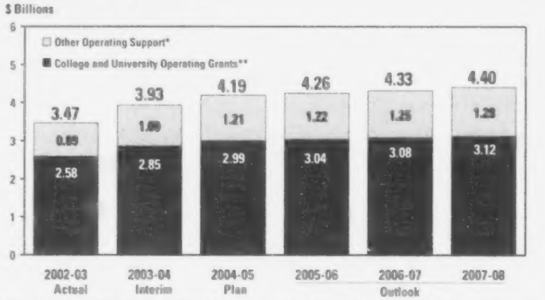

* Includes other operating grants to colleges and universities, student support, and apprenticeship and training programs.
** Includes tuition fee freeze compensation and one-time funding for college sector stabilization.
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- Pending the outcome of the review, the following measures will be put in place to enhance accessibility and affordability.
  - Tuition fees will be frozen for two years at 2003-04 levels for all academic programs funded by the Province. Post-secondary institutions will be compensated for costs resulting from the tuition fee freeze.
  - Better access to student financial assistance will be provided for 50,000 students through eligibility reforms that also improve the harmonization of the Ontario and Canada student assistance plans.
  - One-time funding of $25 million will be provided in 2004-05 to help stabilize colleges experiencing financial difficulties and to assist in the transition to a longer-term funding framework. This funding is provided through the Change Fund.

- Capital funding will increase in 2004-05 to ensure there is additional physical capacity to accommodate increased enrolment. The Province is investing $180 million, including $90 million this year, as part of a three-year commitment to create over 21,000 new spaces at four colleges and nine universities.
- The Province will enhance accountability in the sector by implementing the first annual accountability and funding agreements with post-secondary education institutions beginning in 2005-06. These agreements will include multi-year funding and enrolment targets and will link funding to government objectives.

Ontario is facing a shortage of professional health care workers. *Over the next year, the Ministry of Training, Colleges and Universities will work with the Ministry of Health and Long-Term Care to implement a comprehensive health human resource development strategy designed to increase the supply of highly trained health care professionals.*

- The Province will more than double the opportunities available to international medical graduates, from 90 to 200 positions. Funded through the Ministry of Health and Long-Term Care, the assessment program will be expanded and the number of postgraduate training positions for international medical graduates will increase.
- To further ensure that highly skilled health care providers will be available, the number of clinical education positions for nurse practitioners will be doubled from 75 to 150 within three years.
- In addition, the Province will move to increase the number of postgraduate trained nurses needed to fill key faculty positions in schools of nursing by providing $10 million over four years for a Nursing Faculty Fund.
- The Ministry of Health and Long-Term Care will support experienced nurses to mentor nurse trainees completing their clinical practice requirements.

The Ministry of Training, Colleges and Universities will also work with the Ministry of Education to ensure an adequate supply of appropriately trained teachers.

Ontario needs to increase the quality and quantity of skilled labour, including tradespeople. *The Province will transform the training and apprenticeship system by creating a One-Stop Training and Employment system to better serve apprentices, immigrants, unemployed individuals and youth in transition from school to work.* The One-Stop system will streamline and improve access to programs and responsiveness to employers. As part of this strategy, the Province will negotiate a second-generation labour market agreement with the federal government to allow the integration of federal and provincial labour market and training programs. These transformations will improve pathways to training and employment and produce the following results:

- One-stop local planning and delivery services will be established to address labour market needs and help young people make the transition to work.
- The number of new entrants into apprenticeship will increase by 7,000 to 26,000 annually by 2007-08.

The Province will provide new funding of $11.7 million annually by 2006-07 to expand apprenticeship and will propose a new Apprenticeship Training Tax Credit to encourage employers to hire more apprentices.

The Province will take action to remove the barriers faced by internationally trained individuals that prevent them from pursuing their profession or trade. The Province will provide $12.5 million annually by 2005-06 for this strategy, which will include:

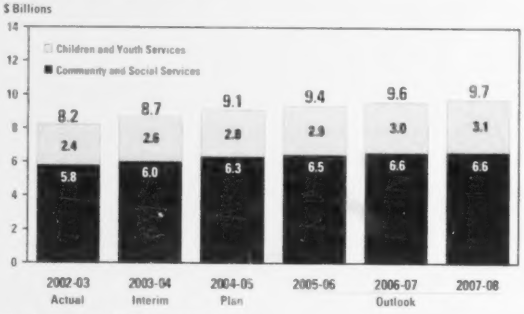
- Working with professional regulatory bodies and employers to increase access and eliminate barriers to credential recognition and job entry.
- Expanding training services to help internationally trained individuals make the transition to Ontario's workforce.
- Improving information on employment opportunities and requirements for individuals considering immigration to Ontario.

Social Services—Budgeting for Results

Strong communities are a key priority for the Province. To support this priority, the government will move to revitalize the social services sector and provide effective and co-ordinated supports for Ontario's children, families and vulnerable people.

Funding for the social services sector, which includes the Ministries of Children and Youth Services and Community and Social Services, will increase by over $1 billion by 2007-08 from the 2003-04 level.

Social Services
Operating Spending



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Key Change Strategies

Programs for children and youth are fragmented and scattered among different Provincial ministries and a wide range of services and supports. Some agencies serving children have been constrained in recent years to the point that services have eroded and service wait times have increased. This complex and inefficient system is difficult for families to navigate through and can often result in poor outcomes as children and youth "fall through the cracks" in the system.

In order to transform children's services, the Province has established the Ministry of Children and Youth Services. Programs for children, formerly dispersed among different ministries, are being consolidated in the new ministry and form the nucleus from which a seamless and rational system of services for children and youth will be built. The aim of this transformation is to ensure that all children and youth have the best opportunity to succeed and realize their full potential.

Over the medium term, the Province will implement strategies to promote strong communities by ensuring that children arrive at school ready to learn and that children are provided the supports they require. First steps in this transition, and key results arising from this strategy, include the following:

- As part of the Federal-Provincial Framework on Early Learning and Child Care, funding will be provided to stabilize the existing regulated child care system and provide child care spaces for pre-school-aged children. In the first year, this will result in an additional 4,000 subsidized child care spaces. This represents an investment of $58 million in 2004-05, growing to $137 million in 2007-08.

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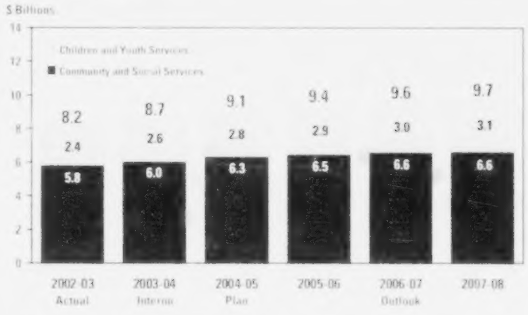
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- Children's Mental Health Centres provide key community-based supports to help vulnerable children and youth. An investment of $25 million in 2004-05, growing to $38 million in 2007-08, will be provided to revitalize and expand children's mental health programs. This investment, at maturity, will allow children's mental health programs to treat an additional 7,000 children per year.
- The Province will provide a three per cent increase in funding in 2004-05 to agencies that have not received a funding increase in several years, including agencies that provide prevention and early intervention services for children and families at risk. The Minister of Children and Youth Services will provide further details on this initiative.

Services and supports for families and adults have also been constrained in recent years, which has contributed to an increase in homelessness and poverty. *Over the next four years, the Province will improve community supports in order to achieve the following results:*

- Increased involvement in their communities by people having income and shelter stability and increased personal safety.
- An integrated and cost-effective service system for vulnerable adults that increases individual and community self-reliance.

As a first step in this transition, the Province is moving to improve income support programs through the following measures:

- An increase of three per cent in social assistance basic needs and maximum shelter allowances for recipients of Ontario Works and the Ontario Disability Support Program; and
- An increase in the maximum benefit provided to families caring for children with severe disabilities.

In total, these measures will provide an additional $106 million in benefits annually to social assistance recipients. Municipalities will not be required to share the cost of these increases until 2005.

Also, social assistance benefits will not be reduced by the July 2004 increase to the federal National Child Benefit Supplement (NCBS) for one year. This change will provide social assistance recipients with an extra $7 million for the 2004-05 fiscal year.

Over the next year, the Province will examine Ontario's approach to the treatment of NCBS payments to social assistance recipients and decide whether it should be changed or restructured. As well, social assistance programs that provide cash and in-kind benefits for children will be reviewed. If there are better ways to deliver benefits to low-income families and vulnerable children, the government will do so.

In addition to financial assistance, people may also need supports provided by social service agencies. As is the case for children's programs, services for adults are sometimes fragmented and some agencies serving adults have experienced financial constraints that have reduced their ability to deliver effective services. *The Province will transform this sector by ensuring that social services operate on a sound financial base and efficiently support their clients to achieve positive results.* As part of this change strategy, the Province is taking the following actions:

- In order to provide communities with flexibility to align services to better meet local needs, homelessness prevention programs will be streamlined and enhanced by $2 million annually.
- An additional $5 million will be available in 2004-05 to provide a three per cent increase for agencies that have not received a funding increase in several years, including women's emergency shelters and domiciliary hostels. The Minister of Community and Social Services will provide further details on this initiative.
- In order to ensure that families receive the support payments they are entitled to, the Province will invest $40 million over the next four years to improve the ability of the Family Responsibility Office to track down and collect support payments that are in arrears.

The Province will be transforming services for people with developmental disabilities in order to create an accessible, fair and sustainable system of community-based supports. The Province will work with stakeholders to create a plan that will result in more self-reliant individuals and families supported by co-ordinated information, planning and services in their local communities.

The government will introduce legislation that would amend the *Tenant Protection Act*. The current rent control guideline allows landlords uncontested rent increases of two per cent plus an inflation factor. Under the proposed 2005 guideline, the two per cent base amount would be suspended so that rent increases would reflect only the increases in landlords' operating costs.

The government will work with the federal government to increase the number of affordable housing units in Ontario, with a particular focus on appropriate housing for persons suffering from mental illness, victims of domestic violence and the working poor.

Electricity

A secure, stable, efficient and clean electricity system is a cornerstone of a strong, competitive and innovative economy and is fundamental to our quality of life. The electricity sector directly employs more than 40,000 people, and generates sales of about $12 billion.

The Province is the sole shareholder of both Ontario Power Generation Inc. (OPG), which acquired the generating assets of the former Ontario Hydro in 1999; and of Hydro One Inc., which acquired the transmission and distribution assets of the old Ontario Hydro.

The fiscal impact of the performance of the electricity sector since April 1, 1999 reflects the net consolidation of the results of OPG, Hydro One, the Independent Electricity Market Operator (IMO), and Ontario Electricity Financial Corporation (OEFC) into the Province's books. OEFC is the legal continuation of the old Ontario Hydro and has the mandate to manage and retire the debt and certain other liabilities of the old Ontario Hydro. A sustainable electricity system means consumers must pay the true cost of electricity. In the past five years, this has not been the case. Without a significant restructuring of the electricity sector, the taxpayer would be at greater risk of continuing to subsidize electricity prices.

Key Change Strategies

The government plans to introduce legislation in June 2004 to implement its vision for reforming the electricity sector, and if the legislation is passed in the fall, the new market structure is expected to be in place early in the new year.

In addition to the creation of an Ontario Power Authority, responsible for ensuring long-term supply adequacy in Ontario and encouraging conservation and renewable energy, the proposed reforms would result in a combination of a fully regulated and competitive electricity sector, with different electricity generators receiving prices set through a variety of mechanisms. Electricity generated from OPG's nuclear and baseload hydro generation assets would receive regulated prices, and electricity from those generators with existing or new contracts would receive prices as determined by their contracts. A competitive market would set the price received by other generation.

Under the proposed plan, consumers would pay bills that reflect a blend of these costs, including the pass-through of regulated rates for OPG-regulated plants, the full costs for existing and new contracts for generation, and market prices for other plants receiving the market price. For residential and small business consumers, the Ontario Energy Board (OEB) would implement a new standard rate plan in early 2005 that would reflect these blended costs. The standard rate plan would provide more stable prices to consumers, with periodic adjustments to ensure people pay the true cost of electricity over time.

Fiscal Implications of Electricity-Sector Reforms

The 2004-05 and medium-term fiscal outlook are based on the implementation of the government's proposed reforms of the electricity sector, as well as other actions already taken. The main impacts, through consolidation of OPG and OEFC on the Province's books, would be as follows:

- The fiscal cost of the fixed price plan for low-volume and designated consumers would be eliminated with the implementation of an OEB standard rate plan early in 2005. In the interim, on April 1, 2004, the government put into place a pricing structure for electricity for low-volume and designated consumers that better reflects the cost of producing electricity and is not expected to result in a fiscal cost to the Province.
- OPG financial performance should improve over the medium term, reversing the significant negative impact of OPG performance on the Province in recent years. Improvement is expected both as a result of government actions to improve management and board oversight at OPG, and through the move to place a significant part of OPG assets under OEB regulation.
- Consumers would be responsible for paying the full cost of existing and any new contracts for generation. This would eliminate the Province's and OEFC's liability for the above-market portion for about 90 existing power purchase agreements. The fiscal impact would be a one-time revenue gain of $3.9 billion in the year the proposed legislation is implemented. These agreements were entered into by the former Ontario Hydro with non-utility generators located in Ontario. As the legal continuation of the old Ontario Hydro, OEFC is the counterparty to these contracts, which account for approximately six per cent of generating capacity in Ontario. Since market opening, the cost to OEFC of purchasing power under these contracts has been higher than the market price at which OEFC is able to resell the electricity. For example, in 2003-04 OEFC paid $289 million more to purchase power under these contracts than it was able to recover from the sale of this power in the market. Under the proposed electricity-sector reforms, full costs would be passed on to the consumer over the life of the contracts, resulting in the elimination of this liability.

The intent of these proposed changes is to have consumers pay the true cost of electricity, without taxpayers paying part of the cost. The projected impact on the fiscal plan would be that sufficient revenues are received from the electricity sector to pay for the interest on the Province's investment in OPG and Hydro One and to ensure that the debt and other liabilities of the old Ontario Hydro are serviced and retired by the electricity consumer, not the taxpayer.

Strong Communities

The Ontario Government and Ontario's municipal leaders share the responsibility of ensuring safe and vital communities. The Ontario Government will begin a dialogue with municipal leaders in the summer of 2004 that will result in a new partnership between the provincial government and municipalities, including new governance and financial tools. This dialogue is expected to guide provincial and municipal fiscal arrangements over the next four years and into the future.

Key Change Strategies

The government will dedicate two cents of the existing provincial gas tax to municipalities for public transit, beginning with one cent in October 2004. This funding will be increased to 1.5 cents in October 2005, and two cents in October 2006. A distribution formula for this funding will be a subject for consultation in the upcoming dialogue.

The Province will move to assume 75 per cent of the cost of public health by 2007. This will have a positive impact on municipal budgets throughout Ontario, with a large portion of the benefit accruing to Greater Toronto Area (GTA) municipalities. In light of this, the government intends to enter into discussions with GTA municipalities on mechanisms to share the costs of transit and transportation in recognition of the increasingly integrated reliance of GTA residents on their transportation infrastructure.

The Province and the Association of Municipalities of Ontario (AMO) have a Memorandum of Understanding (MOU) that has established a framework for consultation and partnership. The Province will introduce legislation to enshrine this MOU in the *Municipal Act*. The Province will also work with the AMO to undertake a review of the *Municipal Act* to ensure that municipal leaders have the powers and flexibility needed to effectively serve their communities.

The Ontario Government has asked the federal government to establish a federal, provincial and municipal working group to examine options to make municipalities more fiscally sustainable, autonomous and accountable, and to ensure that municipalities have a seat at the table of national change.

Working Together on Shared Challenges

In addition to the cornerstone initiatives noted previously, the Ontario Government is undertaking a wide range of investments and initiatives to support Ontario's municipalities and work in partnership on shared challenges:

- The government will release the first-ever Growth Management Plan for the Golden Horseshoe to maximize the benefits of growth and minimize its costs.
- The Ontario Government will introduce legislation that would establish a Greater Toronto Transportation Authority (GTTA), with a clear mandate to reduce gridlock and ensure the smooth movement of goods and people across the GTA.
- The government will invest $448 million in transit capital, including support for the Toronto Transit Commission, expansion of GO Transit, a bus rapid-transit system for the GTA, and technical studies and environmental assessments for the Ottawa O-Train and Waterloo Region's LRT.
- In 2004-05, Ontario will commit $505 million for municipal and local infrastructure investments.
- The Province is partnering with the federal government to fund municipal infrastructure through the five-year, $900 million Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF). Priority will be given to helping small towns and rural communities improve water quality, upgrade sewage treatment and waste management, fix local roads and repair bridges. The federal and Ontario governments are working closely with the AMO to implement a program that meets local needs.
- The Province will invest over $400 million to support source-to-tap drinking water initiatives, which includes over $250 million in capital funding. A significant portion of this funding will be used to help municipalities bring their water treatment facilities up to the world-class standards set out in the Province's *Safe Drinking Water Act*.
- The government is developing a 10-year strategic infrastructure investment plan for Ontario. The plan will set out investment priorities for all sectors and describe how these investments will be funded.
- The Province will introduce legislation that would affirm the creation of the Ontario Strategic Infrastructure Financing Authority (OSIFA) to provide efficient and affordable financing for public infrastructure priorities and to issue Infrastructure Renewal Bonds that will provide Ontarians with an opportunity to invest in local infrastructure across the province.
- The government has introduced *Planning Act* amendments to limit the role of the Ontario Municipal Board in making planning decisions for communities, and to return those powers to elected municipal governments. The government will seek input from municipalities and the development industry on changes to the *Planning Act*, a revised Provincial Policy Statement and reforms to the Ontario Municipal Board process.

- The government will move forward with proclamation of the outstanding legislative provisions to provide incentives to remediate brownfield sites. The Province will partner with municipalities in a program of matching property tax relief to ensure that these sites are returned to their economic and environmental potential.
- The Province will work with municipalities and other stakeholders to move forward on the commitment to divert 60 per cent of waste from landfills. To complement this initiative, the government is also appointing an expert panel to advise on ways to improve the Environmental Assessment process.
- Early in 2004, the Province announced measures to increase municipal flexibility in managing property tax. The Province will introduce legislation that would further expand municipal options in designing the phase-in of current value assessment-based property tax for businesses. The Province will consult further on measures that would increase municipal options to provide small business protection in property tax.
- The Province will accept the advice of its municipal partners and introduce legislation to revise the valuation date for property assessment, by setting it back by six months to January 1 of the year preceding the taxation year, beginning in 2006. To allow time to work together on enhancing the quality and consistency of property assessments, the next reassessment would be conducted for the 2006 taxation year based on January 1, 2005 property values.
- The government will consult with rural residents and stakeholders across the province to better understand the unique priorities of rural communities and the changes that are needed to improve their economic prosperity, environmental well-being and quality of life.
- The government will introduce a range of initiatives to unlock the economic potential of northern Ontario, including a Northern Ontario Grow Bonds program that would foster small and medium-sized business development and the GO North Investor Program, to market northern Ontario to investors around the world and attract anchor investments to northern communities.

Section III: Ontario's 2004-05 Fiscal Plan

2004-05 Fiscal Summary

In 2004-05, the deficit is forecast at $2.2 billion, a $4.0 billion reduction from the $6.2 billion deficit projected for 2003-04. The 2004-05 fiscal plan includes the impact of a one-time $3.9 billion revenue gain related to the projected elimination of the liability for non-utility generator power purchase agreements.

2004-05 Fiscal Outlook
($ Millions)

	Interim	Plan	Change	
	2003-04	2004-05	$ Millions	Per cent
Revenue*	68,250	78,360	10,110	14.8
Expense				
Programs	62,518	66,695	4,177	6.7
Capital	2,202	2,575	373	16.9
Interest on Debt	9,752	10,329	577	5.9
Total Expense	74,472	79,599	5,127	6.9
Reserve	-	1,000	1,000	-
Surplus / (Deficit)	**(6,222)**	**(2,239)**	**3,983**	**(64.0)**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Total revenue in 2004-05 is projected at $78.4 billion, an increase of $10.1 billion from the 2003-04 interim level of $68.3 billion. This increase is primarily due to higher taxation revenues driven by economic growth and the measures proposed in this Budget. The proposed electricity reforms in this Budget increase revenues in 2004-05 by eliminating the liability associated with non-utility generator power purchase agreements.
- Total spending in 2004-05 will increase to $79.6 billion, up $5.1 billion or 6.9 per cent. This increase is primarily due to higher levels of spending on health, education, social services and post-secondary education, as well as additional funding provided through the Change Fund in 2004-05, created to assist key sectors to implement change strategies.

2004-05 Revenue Outlook

Revenue is projected at $78.4 billion in 2004-05, up $10.1 billion or 14.8 per cent from the 2003-04 interim level. Of this increase, $3.9 billion arises from the projected elimination of the liability associated with non-utility generator power purchase agreements. The $4.8 billion increase in taxation revenues is attributable to a growing economy and the revenue impact of measures in the *Fiscal Responsibility Act, 2003*, and proposed in this Budget, including the new Ontario Health Premium.

Revenue by Source
($ Millions)

	Interim 2003-04	Plan 2004-05	Change $ Millions	Change Per cent
Taxation Revenue				
Personal Income Tax	17,778	18,821	1,043	5.9
Retail Sales Tax	14,260	15,036	776	5.4
Corporations Tax	7,222	8,320	1,098	15.2
Ontario Health Premium	-	1,635	1,635	-
All Other Taxes	9,901	10,186	285	2.9
Total Taxation Revenue	49,161	53,998	4,837	9.8
Government of Canada	9,962	10,798	836	8.4
Income from Government Enterprises	3,069	3,564	495	16.1
Other Non-Tax Revenue*	6,058	10,000	3,942	65.1
Total Revenue	**68,250**	**78,360**	**10,110**	**14.8**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Personal Income Tax revenue is projected to increase by $1.0 billion (5.9 per cent) to $18.8 billion in 2004-05. This increase reflects the growth in employment (1.7 per cent) and personal income (3.4 per cent) forecast for the Ontario economy in 2004. The growth rate is also boosted by a negative adjustment recorded against 2003-04 revenues for overestimating revenues by $0.5 billion in the 2002-03 Public Accounts of Ontario.
- Retail Sales Tax revenue is projected to increase by $0.8 billion (5.4 per cent) to over $15.0 billion in 2004-05. This increase results from projected growth (3.5 per cent) in Ontario retail sales in 2004, and continued growth in business spending subject to sales tax.

- Corporations Tax revenue is expected to increase by $1.1 billion (15.2 per cent) to $8.3 billion in 2004-05. This increase reflects the growth in corporate profits projected for 2004 (5.8 per cent) and the tax measures taken in the *Fiscal Responsibility Act, 2003*. The growth rate is also boosted by a negative adjustment recorded against 2003-04 revenues for overestimating revenues by $0.4 billion in the 2002-03 Public Accounts of Ontario.
- The proposed Ontario Health Premium is expected to generate $1.6 billion in revenue in 2004-05.
- Revenues from all other taxes combined are expected to increase by $0.3 billion (2.9 per cent) to $10.2 billion in 2004-05. This increase reflects the pace of real economic growth (2.3 per cent) forecast for the Ontario economy and the impact of tax measures proposed in this Budget.
- Federal Payments are expected to increase by $0.8 billion (8.4 per cent) to $10.8 billion in 2004-05. This increase is mainly due to increased health and social transfers.
- Income from Government Enterprises is expected to increase by $0.5 billion (16.1 per cent) to $3.6 billion in 2004-05. This increase is mainly due to improved performance of Ontario Power Generation Inc., which had lower net income in 2003-04 primarily due to a writedown of its coal-fired plants.
- Other Non-Tax Revenue is expected to increase by $3.9 billion (65.1 per cent) to $10.0 billion in 2004-05. This increase is largely due to a one-time revenue gain of $3.9 billion arising from the projected elimination of the liability associated with non-utility generator power purchase agreements.

2004-05 Expense Outlook

The 2004-05 expense outlook at $79.6 billion is up $5.1 billion from the 2003-04 interim outlook of $74.5 billion. Increased spending is concentrated on health care, education, post-secondary education and social services. A total of $1.0 billion is being provided through the Change Fund to facilitate the implementation of change strategies in key sectors.

Expense by Sector
($ Millions)

	Interim 2003-04	Plan 2004-05	Change $ Millions	Change Per cent
Programs				
Health Care	28,100	29,652	1,552	5.5
Change Fund - Health Care*	-	609	609	-
SARS-related and Major One-Time Health Costs	842	-	(842)	-
Education	9,754	10,623	869	8.9
Training, Colleges and Universities	3,934	4,194	260	6.6
Social Services	8,659	9,149	490	5.7
Justice	2,826	2,907	81	2.9
Other Programs**	8,403	9,561	1,158	13.8
Total Programs	62,518	66,695	4,177	6.7
Capital	2,202	2,575	373	16.9
Interest on Debt	9,752	10,329	577	5.9
Total Expense	**74,472**	**79,599**	**5,127**	**6.9**

* Expense outlook for 2004-05 includes a one-time Change Fund of $1.0 billion, including $0.6 billion to assist with the transformation of the health care sector.

** Includes $1.0 billion Contingency Fund and $0.4 billion Change Fund in 2004-05 expense outlook.

Source: Ontario Ministry of Finance.

- In 2004-05, health care operating spending, excluding $0.6 billion provided through the Change Fund, will be $29.7 billion, an increase of $1.6 billion from the previous year's level of $28.1 billion. Within the health care budget, major areas of spending in 2004-05 include $11.3 billion in operating support to Ontario's 154 hospitals and $7.0 billion in OHIP payments to physicians and other service providers. The remaining $11.4 billion in health care spending will support a wide range of services including drug programs, long-term care facilities, and community and public health services. These investments in community and public services will support transformation of the health care system, leading to lower rates of increase in future funding.

- Ministry of Education operating spending will be $10.6 billion this year, an increase of almost $0.9 billion from the 2003-04 level of $9.8 billion. This includes an increase in School Board Operating Grants (SBOG) of more than $0.7 billion in 2004-05, which represents the Province's fiscal year requirements for the Grants for Student Needs. This increase also includes $0.1 billion in other Student Success funding, provided outside SBOG, primarily to support targeted literacy and numeracy programs.

- Provincial program spending in support of publicly funded post-secondary education institutions, student financial assistance and apprenticeship and training activities, as provided through the Ministry of Training, Colleges and Universities, will increase by $0.3 billion to $4.2 billion in 2004-05. This includes an increase of more than $0.1 billion for Ontario's publicly funded post-secondary education institutions this year. Spending on student financial assistance will also increase by $0.1 billion in 2004-05 including additional costs to enhance Ontario's student loan program.

- In 2004-05, operating spending on social services will be $9.1 billion, an increase of $0.5 billion from last year. This increase includes $0.1 billion to implement an increase in social assistance payments. Programs delivered through the Ministry of Children and Youth Services will increase by $0.2 billion in 2004-05 mainly as a result of enrichments in child care and children's mental health programs.

- The Justice sector, comprising the Ministry of the Attorney General and the Ministry of Community Safety and Correctional Services, will have operating spending of $2.9 billion in 2004-05.

- In 2004-05, spending on all other Provincial programs will be $9.6 billion. This level includes a Management Board Contingency Fund of $1.0 billion that contains funding for government-wide initiatives not yet allocated to ministries, pending further details and/or justification.

- In addition, a $1.0 billion Change Fund is included in the 2004-05 fiscal plan for transformation initiatives that demonstrate an improvement in results and outcomes. Of this amount, $0.6 billion has been allocated to the Ministry of Health and Long-Term Care, with the remainder intended for other sectors. Full details of the Change Fund are provided in the following pages.

- Ontario's planned capital expense for 2004-05 is $2.6 billion, which includes $1.5 billion in capital transfers to municipalities, hospitals, universities, colleges and other transfer recipients; $0.3 billion for repairs, rehabilitation and other capital investments; and $0.8 billion for amortization costs for major Provincial tangible capital assets (mainly highways and buildings).

- Interest on debt in 2004-05 is forecast at $10.3 billion, up from the previous year by $0.6 billion, reflecting the costs associated with increased borrowing requirements.

Change Fund

The 2004 Budget includes a one-time $1.0 billion Change Fund that will support the government's plans to change and improve Ontario's public services. The Fund will help to pay for projects that rationalize or better integrate existing programs and services, to put in place new systems and processes to reduce long-term costs, or to mitigate the demand for services over the long run.

Change Fund investments are intended to cover one-time costs in 2004-05 only; any additional support, if required, will be determined as part of the 2005-06 Budgeting for Results process. Of the $1.0 billion allocated for the Change Fund, more than $600 million is to be provided to the Ministry of Health and Long-Term Care to assist with its transformation agenda. The remaining funding has been, or will be, distributed to other ministries that can provide an acceptable business case for their proposed projects.

The following table highlights key investments funded through the Change Fund in 2004-05.

Change Fund Investments
($ Millions)

		Plan 2004-05
Investments for Health Care		
Community Health Services—home care and community mental health	140	
Family Health Teams	111	
e-Health Initiatives	78	
Other Projects (including wait lists and workplace safety)	280	
		609
Other Investments		
ServiceOntario Enhancement	27	
College Stabilization	25	
Nutrient Management Financial Assistance Program	5	
All Other	6	
		63
Investments to be Confirmed		328
Total Change Fund Investments		**1,000**

Source: Ontario Ministry of Finance.

Investments for Health Care

- A number of projects will be undertaken, designed to facilitate transformation in the health care system, including developing and expanding wait list registries for cardiac services, cancer radiation and hip- and knee-joint replacements, as well as improving workplace safety for nurses by purchasing 12,000 bed lifts for hospitals and long-term care facilities. The Change Fund will make a $280 million investment in these projects.
- Services previously provided in institutions can now often be delivered at home, offering greater dignity and quality of life, and in many instances be less costly to provide. Home care will be expanded to service 21,400 additional Ontarians and access to community mental health services will be extended to a further 13,650 people through a Change Fund investment of $140 million in 2004-05.
- 150 Family Health Teams will be established, composed of physicians, nurse practitioners and other health care providers, that will provide comprehensive primary health care to Ontarians on a 24/7 basis. The Change Fund will contribute $111 million to primary care initiatives.
- e-Health initiatives refers to using information technology to modernize health care service delivery and to achieving health system integration. A variety of e-Health projects will be supported through the Change Fund this year including providing emergency rooms with electronic access to the drug history records of Ontario Drug Benefit recipients; and setting standards for health information technology through the Ontario Health Informatics Standards Council. The Change Fund will provide $78 million for e-Health initiatives in 2004-05.

Other Investments

- The ServiceOntario initiative will improve the delivery of government services to the public by allowing access to government services by telephone, the internet or in person. In addition, operational efficiencies will be realized by consolidating existing offices and co-locating where feasible, with other levels of government. The Change Fund is investing $27 million this year to support ServiceOntario enhancements.
- Pending the results of the post-secondary education review, one-time funding of $25 million will be provided in 2004-05 to help stabilize colleges that are experiencing financial difficulties and enable them to transition to a longer-term funding framework.
- The Nutrient Management Financial Assistance program will help farmers pay the costs associated with becoming compliant with the *Nutrient Management Act*. The government has allocated $20 million over the next two years for this initiative, with first-year funding provided through the Change Fund.

The remaining $328 million in the Change Fund will be allocated early this fiscal year, following a review of business case plans to ensure projects demonstrate such benefits as good value for money; improved quality or delivery of public services; improved cost efficiency or result in cost savings in the long run. As Change Fund projects are reviewed and approved during the fiscal year, these will be detailed and reported in the quarterly Ontario Finances.

Any unallocated amounts remaining in the Change Fund at year-end will be applied to reduce the deficit.

Investments for Healthier Ontarians

The government is committed to ensuring a health care system that is sustainable and delivers high-quality, results-focused and patient-centred health care to Ontarians where and when it is needed. Programs and services that support healthier Ontarians are delivered through many ministries including Health and Long-Term Care; Children and Youth Services; Environment; Training, Colleges and Universities; and others. Altogether, the government will increase spending for programs contributing to healthier Ontarians by $2.4 billion in 2004-05. The table below illustrates increases in programs that contribute to healthier Ontarians.

Year-over-Year Increases in Programs Contributing to Healthier Ontarians ($ Millions)

		Increase 2004-05
Ministry of Health and Long-Term Care		
• Long-Term Care Facilities—reflects opening of an additional 3,760 beds to facilitate appropriate settings for care; and improvements to the safety and quality of care of the residents of these facilities	406	
• OHIP—expansion of family health teams and to fund utilization increases in OHIP insured services	272	
• Ontario Drug Programs—utilization growth	193	
• Home Care, Community and Mental Health Services—increase in funding to provide home care to an additional 21,400 Ontarians and support an additional 13,650 mental health clients in their communities	182	
• Public Health Services—improve systems capacity to manage infectious disease control, add three new vaccines to the children's immunization program, and implement a comprehensive tobacco strategy	165	
• Health human resource strategies—initiatives to increase the supply of physicians, nurse practitioners and nurses and to purchase 12,000 bed lifts to improve working conditions for nurses	108	
• Wait Time Registries and e-Health Initiatives—aimed at using information technology to modernize health care service delivery and to help achieve health system integration	97	
• Hospitals—increase in Provincial operating support for the continuation of essential health care services	470	
• Other health care services including increases for cancer care and ambulance services	268	
		2,161

Year-over-Year Increases in Programs Contributing to Healthier Ontarians (continued) ($ Millions)

		Increase 2004-05
Ministry of Children and Youth Services		
• Children's Mental Health—enhance community-based programs serving children at risk		25
Ministry of Community and Social Services		
• Ontario Drug Benefit Plan—utilization growth		42
Ministry of Environment		
• Clean Water Programs—Safe Drinking Water program, Watershed-Based Source Protection program, and nutrient management standards, implementation and compliance activities	52	
• Capital Clean Water Programs—includes Watershed-Based Source Protection program, and investments in nutrient management to support the implementation of standards	8	
		60
Ministries of Municipal Affairs and Housing/Northern Development and Mines		
• Millennium Partnerships Initiative—water and wastewater projects		21
Ministry of Natural Resources		
• Operating Programs—Watershed-Based Source Protection program	26	
• Capital Programs—Watershed-Based Source Protection program and surface water monitoring	6	
		32
Ministry of Training, Colleges and Universities		
• Medical and Nurse Education—increase funding to support increased enrolment in medical schools and collaborative nursing education programs		16
Ministry of Tourism and Recreation		
• Active 2010—promotes increased participation in sports and physical activity, particularly for children, youth and low-income individuals		3
Total Increase in Funding		**2,360**

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

To ensure that there will be funding, both for health care and for other health enhancing priorities, the government will introduce proposed legislation to create the Ontario Health Premium to support a $2.4 billion increase in funding for the programs that contribute to healthier Ontarians this year.

Support for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation of hospitals, charities, communities and the agricultural sector.

Support for Health Care, Charities, and Problem Gambling and Related Programs ($ Millions)

	Interim 2003-04	Plan 2004-05
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,499	1,474
Ontario Trillium Foundation	100	95
Problem Gambling and Related Programs	21	36
Commercial Casinos Revenue		
General Government Priorities	480	512
Total	**2,100**	**2,117**

Sources: Ontario Ministry of Economic Development and Trade and Ontario Ministry of Finance.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999*, requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2004-05, it is estimated that $1,474 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals.
- The Ontario Trillium Foundation has become one of Canada's largest grant-making foundations. In 2004-05, the Ontario Trillium Foundation will be provided with $95 million (to be supplemented with $5 million from the Ontario Trillium Foundation reserve for a total of $100 million) to help build strong and healthy communities by contributing to charitable and not-for-profit organizations.
- Two per cent of gross slot machine revenue, estimated at $36 million for 2004-05, is allocated to programs that support problem gambling and related treatment, prevention and research programs.

Benefits from Commercial Casinos

- In 2004-05, net Provincial revenue from commercial casinos estimated at $512 million will be used to support general government priorities including health care, education and social programs.
- Since the commencement of commercial casino operations, 27,000 direct and indirect jobs have been created in Ontario. Commercial casino operations and the additional tourists they attract contribute an estimated $2.4 billion annually to the Ontario economy.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Support for the Agricultural Sector and Municipalities
($ Millions)

	Interim 2003-04	**Plan 2004-05**
Agricultural Sector	308	299
Municipalities	75	75
Total	**383**	**374**

Source: Ontario Ministry of Economic Development and Trade.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has preserved and enhanced over 60,000 jobs in Ontario's horse-racing industry, providing over $1.1 billion to a key component of the Province's agricultural sector. For 2004-05, additional support is estimated at $299 million.
- A portion of gross slot machine revenue estimated at $75 million in 2004-05 will be provided to municipalities that host charity casinos and slot operations at racetracks, to help offset local infrastructure and service costs.

Infrastructure Overview

Infrastructure is the foundation, literally and figuratively, for the next wave of economic and population growth in Ontario.

Investment in infrastructure raises our standard of living through its impact on productivity and by enabling the provision of public services that improve our quality of life. Every additional $1 million invested in public infrastructure generates approximately $200,000 in annual cost savings to Ontario businesses. Similarly, in the public sector, investment in infrastructure can raise the quality and efficiency of health, education and other public services.

Ontario already has public infrastructure worth more than $250 billion. However, over the last two decades, public infrastructure growth has significantly lagged economic growth. At the same time, most of the infrastructure built for the baby boom is reaching the end of its useful life and needs to be renewed or replaced.

To help meet the infrastructure challenge, the government established a new Ministry of Public Infrastructure Renewal. The Ministry is responsible for the strategic management of the government's capital investment plan, including investments in the Province's own assets and transfers for capital purposes to hospitals, municipalities, post-secondary institutions and other transfer recipients.

The government is also committing to develop a 10-year strategic infrastructure investment plan to guide our future investment decisions. The plan will identify long-term investment priorities in key sectors such as water and wastewater, transportation, health, justice, schools and post-secondary education.

The way we live tomorrow depends on how we plan and grow today. That is why the government is developing a growth management plan, starting with the Golden Horseshoe—the largest urban region in Canada. The plan will help us grow in the right way—by investing in infrastructure to support growth areas and by protecting the areas that provide our food, water and recreation. The government will be releasing the first growth management plan for the Golden Horseshoe region in the coming months.

Gross Capital Investments
($ Millions)

		Plan 2004-05
Transportation		1,546
Highways	992	
Transit	448	
Other Transportation	106	
Health and Long-Term Care		346
Post-Secondary Education		175
Environment		346
Water	257	
Other	89	
Municipal and Local Infrastructure		505
Justice		97
Other (Net)		328
Total Gross Capital Investment		3,343
Less: Net Investment in Capital Assets*		**768**
Total Capital Expense		**2,575**

* Table A5 in the appendix of this Paper includes the details pertaining to Net Investment in Capital Assets.

Note: Total gross capital investment includes $359 million in flow-through funds (Infrastructure revenue on a PSAB basis is $267 million): $89 million for Transportation, $103 million for Environment, and $167 million for Municipal and Local Infrastructure. Gross capital investment excluding flow-through funds is $3.0 billion.

Source: Ontario Ministry of Public Infrastructure Renewal.

In 2004-05, the government will invest approximately $3.3 billion in Ontario's infrastructure.

- Through the Ministry of Transportation and the Ministry of Northern Development and Mines, the Province will invest $992 million in highway rehabilitation and expansion in 2004-05. The Province will also provide $448 million in transit to expand GO Transit services; develop the new Bus Rapid Transit system in the GTA; undertake technical studies and environmental assessments for the Ottawa O-Train and Waterloo Region's LRT; begin York Region's Quick Start program; and renew municipal transit fleets across the province. In addition, Provincial support for the TTC will include funding to undertake an environmental assessment for the possible future expansion of the Spadina subway to York University.

- The Province will introduce proposed legislation to create a Greater Toronto Transportation Authority (GTTA) to co-ordinate transportation investment and planning in the GTA. The GTTA would have a mandate to reduce gridlock and ensure the smooth movement of goods and people across the GTA by creating an integrated transportation system for the region.

- The Ministry of Health and Long-Term Care will invest $346 million in health care infrastructure in 2004-05 to help reduce wait times and improve health care services. This investment will expand and modernize hospitals, long-term care facilities and community care facilities across the province.

- This year the Province is investing $175 million in post-secondary education capital. This funding includes $107 million for expansion projects to create new spaces at Ontario's universities and community colleges, including a new Northern Ontario Medical School. It also includes $20 million for the Apprenticeship Enhancement Fund and the College Equipment and Renewal Fund to enable colleges to acquire more up-to-date equipment and learning resources, and $40 million for the Facilities Renewal Program.

- Environmental investment, including safe drinking water infrastructure, will be $346 million in 2004-05. The government will invest $257 million in clean water capital projects, including $222 million for municipal water and wastewater infrastructure, $28 million for upgrades to drinking water systems in Ontario Parks and $7 million for watershed-based source protection and other water quality measures. The other environmental capital investment consists of natural resource management infrastructure, environmental land acquisition, environmental cleanup projects and upgrading Conservation Authority dams.

- The Province is committed to working with the federal government and municipalities to improve municipal and local infrastructure. In 2004-05, the Province will invest $505 million in municipal and local infrastructure, including $167 million in federal flow-throughs. This includes the Affordable Housing Program, the new Canada-Ontario Municipal Rural Infrastructure Fund, the Northern Ontario Heritage Fund, the Toronto Waterfront Revitalization initiative, the Millennium Partnerships' strategic investments in urban areas outside the GTA (non-water), the Ontario Small Town and Rural infrastructure initiative (non-water), the Sports, Culture and Tourism Partnerships initiative, as well as other smaller capital investments.

- Investment of $97 million in the justice sector in 2004-05 is to complete current court and correctional projects, including initiatives to address court backlogs, and to undertake various repair and rehabilitation projects.

- The capital plan includes other initiatives totalling $328 million, including technological education equipment, developmental services, biotechnology and R&D infrastructure programs, and other capital programs. As part of these initiatives, the Province will take the first steps needed to establish a new GTA Youth Centre to replace the Toronto Youth Assessment Centre.

Ontario Strategic Infrastructure Financing Authority

The government is creating the Ontario Strategic Infrastructure Financing Authority (OSIFA) as an innovative financing vehicle that can be used by the broader public sector to renew and build critical public infrastructure assets. This vehicle also provides the federal government with an opportunity to partner with Ontario.

Renewing Ontario's public infrastructure improves the quality of public services and helps build a strong and prosperous economy.

OSIFA Infrastructure Renewal Loan Program

OSIFA will develop and implement an infrastructure renewal loan program that provides efficient and affordable financing to meet critical municipal, health, education and housing infrastructure priorities. OSIFA is based on a proven "pooled financing" concept that aggregates the infrastructure investment needs of many borrowers into one borrowing pool. OSIFA will provide access to infrastructure capital that would not otherwise be available to smaller borrowers. Larger borrowers will benefit from significant savings on transaction costs such as legal costs and underwriting commissions. Under the OSIFA approach, all borrowers will receive the same low interest rate.

OSIFA's 2004-05 infrastructure renewal loan program will be focused on Ontario's municipalities, aiming to offer affordable infrastructure financing for five key municipal priorities: clean water infrastructure, sewage treatment facilities, waste management infrastructure, municipal roads and bridges, and public transit.

The government wants to ensure that borrowers eligible for OSIFA's loan program represent the full scope of needs within the broader public sector. Therefore, along with Ontario municipalities, the OSIFA infrastructure renewal loan program will include hospitals, municipal long-term care facilities, colleges, universities, school boards and affordable housing providers.

In the coming months the Ministries of Finance and Public Infrastructure Renewal will consult with representatives from line ministries and key stakeholders to design the program parameters for broader public-sector borrowers. These parameters for the OSIFA infrastructure renewal loan program will be announced later this year.

Infrastructure Renewal Bonds

OSIFA will offer a new financial instrument called Infrastructure Renewal Bonds (IRBs) to institutional and individual investors. OSIFA will use the proceeds from the sale of IRBs to fund its infrastructure renewal loan program.

IRBs will be attractive to large institutional investors such as pension funds and insurance companies. They will offer an investment that is backed by the credit strength of municipal, hospital, educational and other public-sector borrowers. These bonds will provide local investors with a solid investment for their families and an opportunity to invest in local infrastructure. The first issue of IRBs will take place later this year.

Section IV: Interim Performance for 2003-04

2003-04 Interim Performance

The interim outlook for 2003-04 forecasts a deficit of $6,222 million, up $601 million from the $5,621 million deficit reported in the 2003 Ontario Economic Outlook and Fiscal Review ("Fall Outlook"). This deterioration is mainly due to in-year revenue declines of $1,282 million from lower tax revenues and the writedown of Ontario Power Generation coal-fired plants, partially offset by lower interest on debt charges and year-end underspending.

2003-04 In-Year Fiscal Performance ($ Millions)

	Fall Outlook*	Interim	In-Year Change
Revenue	69,532	68,250	(1,282)
Expense			
Programs	62,554	62,518	(36)
Capital	2,574	2,202	(372)
Interest on Debt	10,025	9,752	(273)
Total Expense	75,153	74,472	(681)
Surplus / (Deficit)	**(5,621)**	**(6,222)**	**(601)**

* As presented in the 2003 Ontario Economic Outlook and Fiscal Review.
Source: Ontario Ministry of Finance.

- Revenue is estimated to be $1,282 million below the Fall Outlook projection. This shortfall is mainly due to lower revenues from Personal Income and Retail Sales Taxes, Hydro Successor Corporations and lower federal government payments resulting largely from delays in infrastructure projects.
- Total expense is $681 million below the projected Fall Outlook level, mainly due to lower interest on debt charges and year-end operating and capital underspending across government programs, partially offset by increased in-year funding requirements for hospitals.

In-Year Revenue Performance

Total revenues in 2003-04 are estimated to be $68,250 million, $1,282 million below the Fall Outlook projection.

Summary of In-Year Changes to Revenue in 2003-04
($ Millions)

		Interim 2003-04
Taxation Revenue		
Personal Income Tax	(822)	
Retail Sales Tax	(290)	
All Other Taxes	326	
		(786)
Government of Canada		
Infrastructure-related Federal Payments	(251)	
Other Federal Payments	(51)	
		(302)
Income from Government Enterprises		
Hydro Successor Corporations	(333)	
Other Government Enterprises	(32)	
		(365)
Other Revenue		171
Total In-Year Revenue Changes		**(1,282)**

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenues are estimated to be $822 million below projection. This is due to weaker final 2002 PIT assessments and lower wages and salaries growth.
- Retail Sales Tax revenues are $290 million below projection. This is consistent with weaker growth in retail sales.
- Revenues from all other taxes combined are $326 million above projection. This is mainly due to record-setting levels of Preferred Share Dividend Taxes assessed for 2002 and recorded as revenue in 2003-04. Land Transfer Tax revenues also came in well above projection as the Ontario housing market continued to surpass forecasts.
- Federal payments for infrastructure projects are $251 million below projection due to delays in finalizing contracts among the federal, provincial and municipal governments.

- All other federal payments combined are $51 million below projection. This is mainly due to a negative adjustment recorded against 2003-04 Canada Health and Social Transfer revenues for overestimating revenues by $75 million in the 2002-03 Public Accounts of Ontario.
- The combined net income from Hydro One Inc. and Ontario Power Generation Inc. (OPG) is $333 million below projection. This is mainly due to lower net income from OPG, which reflects the writedown in the value of its coal-fired plants in 2003-04 that lowered net income by $473 million.
- The combined income of all other government enterprises is estimated to be $32 million below projection. This is mainly due to increased pension expenses for the Ontario Northland Transportation Commission related to its early-retirement offer.
- Other revenue is estimated to be $171 million above projection. This is mainly due to higher net revenues consolidated from the Ontario Realty Corporation.

In-Year Expense Performance

Total expense for 2003-04 is $681 million below the level of $75,153 million projected in the 2003 Economic Outlook and Fiscal Review.

Summary of In-Year Expense Changes in 2003-04
($ Millions)

		Interim 2003-04
Program Expense Changes:		
Hospitals—additional operating costs	310	
Partially offset from the Contingency Fund	(215)	
OHIP Utilization and Primary Care Information Technology	208	
Pension Benefits Guarantee Fund—Algoma Retiree Pension Plans	162	
Fully offset from the Contingency Fund	(162)	
Power Purchases— lower volumes of electricity required	(119)	
Teachers' Pension Plan—lower benefit costs and better-than-expected return on pension plan assets	(105)	
Other (Net)	(115)	
Total Program Expense Changes		**(36)**
Capital Expense Changes:		
Municipal Partnership Initiatives—delay in concluding agreements	(179)	
Health programs—construction delays	(149)	
Justice programs—project completion delays	(14)	
Other (Net)	(30)	
Total Capital Expense Changes		**(372)**
Interest on Debt Change		**(273)**
Total In-Year Expense Changes		**(681)**

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Operating Expense Changes

- Transfers to hospitals increased by $310 million in-year to cover additional operating costs, partially offset by $215 million from the Contingency Fund. The Province and hospitals will be entering into new accountability agreements to better link Provincial funding to the achievement of results.

- OHIP payments to physicians and other practitioners increased in-year by $208 million. This increase was primarily due to increased utilization of physicians and other practitioners, as well as additional funding provided for the Primary Care Information Technology program.
- The government provided a 30-year interest-free loan of $330 million in-year to the Pension Benefits Guarantee Fund. The $330 million will be transferred to the pension plans for Algoma Steel retirees, and used to settle pension obligations through the purchase of annuities from insurance companies to provide pension benefits. The cost to the Province of this loan is the interest foregone at market rates, in the amount of $162 million, which was fully offset from the Contingency Fund.
- In-year savings of $119 million for power purchases were realized mainly due to lower-than-expected volumes of electricity purchased by the Ontario Electricity Financial Corporation from non-utility generators.
- Teachers' Pension Plan expense is $105 million lower than the Fall Outlook projection, mainly due to $67 million in lower benefit costs projected for the current period and a $30 million higher amortization of experience gains resulting from a better-than-expected return on pension plan assets.
- Interest on debt charges were $273 million below the Fall Outlook projection due to lower-than-expected interest rates and cost-effective debt management.

Capital Expense Changes

- Municipal partnership program investments (including Affordable Housing, Toronto Waterfront Revitalization, Millennium Partnerships, Ontario Small Town and Rural Infrastructure, and Sports, Culture and Tourism Partnerships) were $179 million less than anticipated due to delays in finalizing contracts for certain projects.
- Health investment was down $149 million primarily due to construction delays related to the SARS outbreak.
- Capital expenses in the justice sector were $14 million lower than expected due to delays associated with the completion of court and corrections projects.

Section V: Potential Risks and Cost Drivers

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions or program demand. It should be cautioned that these sensitivities and risks are only useful guidelines and can vary depending on the nature and composition of potential risk.

The Ontario Economy and Provincial Revenues

A growing economy with rising incomes and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of revenue for the Provincial government. Of the $78 billion forecast as Provincial revenue for 2004-05, $54 billion or about 69 per cent is expected to come from taxation revenue. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for 54 per cent of total revenue. Inherent in any multi-year revenue forecast is uncertainty about the future.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Total Taxation Revenues		
- Revenue Base[1]	3.5 per cent growth	$500 million change in revenues per percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
- Real GDP	2.3 per cent growth in 2004	
- Nominal GDP	4.1 per cent growth in 2004	
- GDP Deflator	1.7 per cent growth in 2004	
Personal Income Tax Revenues		
Tax Assessments		
- Revenue Base	2.8 per cent growth in 2003 3.4 per cent growth in 2004-05	$180 million change in 2004-05 revenues for each percentage point change in 2003 PIT.[2]
Key Economic Assumptions		
- Employment	1.7 per cent growth in 2004	$220 million change in 2004-05 revenues for each percentage point change in wages and salaries growth.
- Wages and Salaries	3.1 per cent growth in 2004	
- Unincorporated Business Income	5.9 per cent growth in 2004	
Key Revenue Assumptions		
- Net Capital Gains Income	4.4 per cent growth in 2004	$5 million change in revenue per one percentage point change in net capital gains income.
- RRSP Deductions	4.9 per cent growth in 2004	$10 million change in revenue per one percentage point change in RRSP deductions.
Retail Sales Tax Revenues		
- Revenue Base	4.6 per cent growth	$90 million change in revenue per percentage point change in nominal consumption expenditure growth.
Includes:		
- Taxable Consumer Spending	3.8 per cent growth	
- Other Taxable Spending	5.7 per cent growth	
Key Economic Assumptions		
- Retail Sales	3.5 per cent growth in 2004	
- Nominal Consumption Expenditure	4.0 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Corporations Tax Revenues		
- Revenue Base	3.5 per cent growth	$45 million change in revenue per percentage point change in pre-tax corporate profit growth.
- Corporate Profits	5.8 per cent growth in 2004	
- 2003-04 tax assessment refunds[3]	$1.2 billion payable	
		$12 million change in revenue per one percentage point change in 2003-04 refunds.
Employer Health Tax Revenues		
- Revenue Base	3.0 per cent growth	$30 million change in revenue per percentage point change in wages and salaries growth.
- Wages and Salaries	3.1 per cent growth in 2004	
Ontario Health Premium Revenues		
- Revenue Base	4.3 per cent growth	$20 million change in revenue per percentage point change in personal income growth.
- Personal Income	3.4 per cent growth in 2004	
Gasoline Tax Revenues		
- Revenue Base	2.0 per cent growth	$8 million change in revenue per one cent per litre change in prices.
- Gasoline pump prices	72 cents per litre	
Fuel Tax Revenues		
- Revenue Base	5.8 per cent growth	$10 million change in revenue per percentage point change in real GDP growth.
- Real GDP	2.3 per cent growth in 2004	
Land Transfer Tax Revenues		
- Revenue Base	3.9 per cent growth	$10 million change in revenue per percentage point change in both the number and prices of housing resales.
- Housing Resales	3.6 per cent growth in 2004	
- Resale Prices	5.5 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Health and Social Transfers		
- Canada-wide Revenue Base	$20.6 billion	$30 million change in revenue per one-tenth percentage point change in population share.
- Ontario Population Share	38.8 per cent	
- Ontario PIT Base Share	44.0 per cent	
- Ontario Revenue Share	37.0 per cent	$10 million change in revenue per one-tenth percentage point change in PIT base share.

1. Revenue base is revenues excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2003 PIT is currently a forecast estimate because 2003 tax returns are currently being assessed by Canada Revenue Agency.
3. Corporations Tax refunds arising during 2003-04 are still subject to considerable uncertainty because a very high proportion of corporations have until June 30, 2004 to file their 2003 tax return.

Expense Risks and Sensitivities

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities

Program	2004-05 Assumption	Sensitivities
Hospitals	Annual growth of 4.3 per cent	One per cent change in hospital funding: $113 million.
Drug Programs	Annual growth of 8.3 per cent (in health portion)	One per cent change in utilization of all drug programs: $25 million.
Home Care/Community Services	Over 15.6 million hours of homemaking and support services 7.9 million nursing and professional visits	One per cent change in hours of homemaking and support services: $4 million. One per cent change in nursing and professional visits: $5 million.
Long-Term Care Facilities	Approximately 74,400 long-term care facility beds	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care facility is over $33,000. One per cent change in number of beds: $25 million.
Elementary and Secondary Schools	Almost 2 million average daily pupil enrolment	One per cent enrolment change: $160 million.
College Students	151,000 full-time students	One per cent enrolment change: $6 million.
University Students	295,000 full-time students	One per cent enrolment change: $20 million.
Ontario Works	196,000 average annual caseload	One per cent caseload change: $15 million.
Ontario Disability Support Program	225,000 average annual caseload	One per cent caseload change: $22 million.

Selected Expense Risks and Sensitivities		
Program	**2004-05 Assumption**	**Sensitivities**
Judicial System	2.8 million adult inmate days per year	Average cost $150 per inmate per day. One per cent change in inmate days: $4 million.
Interest on debt	Average cost of borrowing is expected to be approximately 4.9 per cent.	The impact of a 100 basis-point change in borrowing rates is expected to be approximately $150 million.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public sector partners and the Province.

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians	$58 million*	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	$34 million*	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	$115 million**	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	$45 million*	Over 60,000 public servants.

* Based on 2003-04.

** One per cent increase to salary benchmarks in Grants for Student Needs based on 2003-04 school year.

Selected Expense Risks and Sensitivities		
Program	**2004-05 Assumption**	**Sensitivities**
Judicial System	2.8 million adult inmate days per year	Average cost $150 per inmate per day. One per cent change in inmate days: $4 million.
Interest on debt	Average cost of borrowing is expected to be approximately 4.9 per cent.	The impact of a 100 basis-point change in borrowing rates is expected to be approximately $150 million.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public sector partners and the Province.

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians	$58 million*	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	$34 million*	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	$115 million**	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	$45 million*	Over 60,000 public servants.

* Based on 2003-04.

** One per cent increase to salary benchmarks in Grants for Student Needs based on 2003-04 school year.

Section VI: Changes in the Reporting Entity

In August 2003, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), which recommends accounting standards for governments in Canada, set out new standards for a government's reporting entity. The reporting entity consists of all organizations included in the government's financial statements.

Under the new standards, the Province will add to its books 105 school boards and school authorities, 24 community colleges and 154 hospitals from across Ontario. They will be consolidated into the Province's financial statements starting with the 2005-06 Public Accounts of Ontario, and in the subsequent Ontario Budget.

The change will have an impact on the Province's financial plans and reports. With the inclusion of these organizations:

- The Province's annual surplus/deficit will reflect the organizations' annual surpluses/deficits, and its net debt will include their net debt; and
- In many cases, the Province's transfer payments to them for capital purposes will be treated as Provincial investment in capital assets rather than current-year expenses.

The Ministry of Finance will work closely with the affected line ministries and their transfer partners in developing the process and protocol for meeting the new PSAB requirements.

Which organizations to include

Under the new standards, the inclusion of an organization in the reporting entity depends on whether the government controls the organization. Control is a complex issue tied to governance and legal powers. To help with decision-making, the new PSAB standards provide in-depth guidance by setting out numerous "indicators of control."

The Office of the Provincial Auditor, in its 2003 Annual Report, looked in detail at how the new standards might affect Ontario. The report concluded that the Province should carry out an assessment of colleges, school boards and hospitals, all of which met significant markers of control. The Province's assessment concluded that it was appropriate to include school boards and school authorities (small school boards located in remote areas), hospitals and colleges in the reporting entity.

Other organizations in the broader public sector may also meet the new standards. The Province will work with the Office of the Provincial Auditor to assess which organizations should be included in its financial statements in the future, and when.

How to consolidate

The financial results of all organizations in the reporting entity must be consolidated into one set of figures for the Budget or financial statements.

PSAB has recommended that the organizations initially be consolidated on a "one-line" basis. Under this treatment, the total net assets of included organizations are shown as a single line in the Province's assets. Similarly, their annual surplus/deficit is shown in total as a single-line item on the Province's Consolidated Statement of Operations.

Under the one-line consolidation method, organizations can be included on the accounting basis they view as the most appropriate for their organization, whether or not that basis is the same as the Province's. To illustrate, colleges and hospitals now use generally accepted accounting standards appropriate for not-for-profit organizations. With the assistance of the Province, school boards are adopting generally accepted accounting standards appropriate for local government organizations. Neither of these treatments, however, corresponds directly to PSAB standards used by Ontario and other provincial governments. For example, PSAB for local government organizations does not currently treat investment in tangible capital assets the way that provincial government standards do.

PSAB has proposed that governments, including Ontario, ultimately move to what is called full consolidation of organizations that meet the test of control under the new standards. Under this treatment, the organizations would have to adopt the same accounting policies as the Province, and each item of their revenue and spending, and their assets and liabilities, would be combined with the same item in the Province's financial statements.

Ontario has serious concerns about fully consolidating these organizations. In the view of the Province, one-line consolidation is a better treatment. It meets the Province's need to reflect the overall financial impact of these organizations and to exercise high-level control. At the same time, it shows more clearly that organizations such as hospitals, school boards and colleges operate with a greater degree of autonomy—through their boards, their ability to raise funds or revenues, and their latitude in allocating their resources—than organizations directly controlled by the Province that are fully consolidated.

Ontario has already expressed these concerns to PSAB, and will work with PSAB and the Office of the Provincial Auditor to resolve them.

Transparency, Accountability, Consistency

In line with its commitment to best practices in fiscal planning and reporting, Ontario recognizes that one-line consolidation of certain organizations supports important goals:

Greater transparency

At present, about 80 per cent of the Province's program and capital spending is in the form of transfer payments to individuals and organizations such as hospitals, schools, long-term care facilities and colleges. However, the only information available on the Province's books for these organizations, at present is the funds transferred each year. One-line consolidation will also reflect whether these organizations are running surpluses or deficits.

The Province will further enhance the transparency by providing segmented information on the major categories of assets, liabilities, revenues and expenses, by sector, in the notes to its financial statements.

Stronger accountability

Greater transparency goes hand-in-hand with the need for greater accountability. For example, if a newly added organization overspends and runs a deficit, the Province's deficit will increase accordingly. This is a reminder that the organizations and the Province have a responsibility to taxpayers as well as those who use public services.

Consistent accounting for capital

The Province records investments in its own long-lived assets, such as highways, as investment in capital assets rather than current-year expense. However, funds for capital purposes that are transferred to organizations outside the reporting entity are treated as current-year expense in the Province's books. In the case of hospitals and colleges, consolidation will remove this inconsistency in accounting for capital.

Conclusion

The fiscal path followed by the previous government was not sustainable. This government is determined to take a balanced and responsible approach to eliminating the structural deficit it inherited, while improving the programs and services that people value and need the most.

The government is committed to achieving its medium-term deficit reduction targets, balancing the budget in 2007-08, and to beginning the transitional process of moving towards a higher level of fiscal responsibility and transparency. This approach to fiscal planning is based on the overarching principles that fiscal planning should meet the priorities of the people of Ontario; governments should live within their means; all provincial spending, ministry plans and activities should produce specific results; and fiscal planning and reporting should be made more transparent.

By adhering to this approach, the Province is setting out a fiscal plan that is both realistic and sustainable. In particular, this approach will ensure that funding is directed to the priorities that matter to Ontarians and that these services are affordable in the longer term.

Tables and Graphs

Statement of Financial Transactions
($ Millions)

Table A1

			Actual	Interim	Plan
	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue*	66,044	66,249	68,609	68,250	78,360
Expense					
Programs	51,146	53,647	56,922	62,518	66,695
Capital**	2,123	1,890	1,876	2,202	2,575
Interest on Debt	10,873	10,337	9,694	9,752	10,329
Total Expense	64,142	65,874	68,492	74,472	79,599
Reserve	-	-	-	-	1,000
Surplus / (Deficit)	**1,902**	**375**	**117**	**(6,222)**	**(2,239)**
Net Debt[†]	**132,496**	**132,121**	**132,647**	**139,405**	**142,412**
Accumulated Deficit[†]	**132,496**	**132,121**	**118,705**	**124,927**	**127,166**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

[†] Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Revenue
($ Millions)

Table A2

	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
Taxation Revenue					
Personal Income Tax	17,911	19,097	18,195	17,778	18,821
Retail Sales Tax	13,735	13,803	14,183	14,260	15,036
Corporations Tax	9,200	6,646	7,459	7,222	8,320
Employer Health Tax	3,424	3,502	3,589	3,737	3,874
Gasoline Tax	2,172	2,192	2,306	2,282	2,328
Fuel Tax	648	659	682	684	716
Ontario Health Premium	-	-	-	-	1,635
Tobacco Tax	504	703	1,183	1,299	1,452
Land Transfer Tax	642	665	814	911	927
Electricity Payments-In-Lieu of Taxes	907	387	711	597	630
Other Taxes	333	371	429	391	259
	49,476	48,025	49,551	49,161	53,998
Government of Canada					
Canada Health and Social Transfer (CHST)	4,138	5,831	7,346	7,014	-
Canada Health Transfer (CHT)	-	-	-	-	4,677
Canada Social Transfer (CST)	-	-	-	-	2,924
CHST Supplements	757	380	191	577	775
Social Housing	541	524	525	522	521
Health Reform Fund	-	-	-	387	582
Diagnostic/Medical Equipment	190	190	-	193	193
Infrastructure	2	-	62	155	267
Other Government of Canada	501	829	770	1,114	859
	6,129	7,754	8,894	9,962	10,798
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,181	2,255	2,288	2,100	2,117
Liquor Control Board of Ontario	877	904	939	1,043	1,117
Ontario Power Generation Inc. and Hydro One Inc.	783	179	717	(15)	335
Other Government Enterprises	14	7	(2)	(59)	(5)
	3,855	3,345	3,942	3,069	3,564
Other Non-Tax Revenue					
Net Reduction of Power Purchase Contract Liability*	-	-	161	104	4,024
Reimbursements	1,809	1,592	1,111	1,175	1,252
Electricity Debt Retirement Charge	-	-	889	1,000	1,009
Vehicle and Driver Registration Fees	929	941	982	986	987
Power Sales	695	815	635	510	675
Other Fees and Licences	503	474	606	505	536
Liquor Licence Revenue	525	530	530	486	499
Sales and Rentals	637	344	560	520	403
Royalties	235	224	304	243	239
Miscellaneous Other Non-Tax Revenue	1,251	2,205	444	529	376
	6,584	7,125	6,222	6,058	10,000
Total Revenue	66,044	66,249	68,609	68,250	78,360

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Operating Expense
($ Millions)

Table A3

Ministry	**2000-01**	**2001-02**	**Actual 2002-03**	**Interim 2003-04**	**Plan 2004-05**
Agriculture and Food	634	775	615	677	549
Attorney General*	969	995	1,052	1,156	1,162
Board of Internal Economy	116	124	146	204	149
Children and Youth Services*	2,070	2,244	2,431	2,643	2,832
Citizenship and Immigration*	65	59	53	56	62
Community and Social Services*	5,772	5,751	5,787	6,016	6,317
Community Safety and Correctional Services*	1,419	1,513	1,652	1,670	1,745
Consumer and Business Services	155	172	178	184	213
Culture	236	279	330	294	277
Democratic Renewal Secretariat	-	-	-	-	4
Economic Development and Trade*	200	221	241	260	414
Education	7,961	8,354	8,998	9,754	10,623
Teachers' Pension Plan (TPP)	(402)	42	238	235	359
Energy	344	367	144	118	137
Environment*	190	265	237	260	304
Executive Offices	21	19	20	22	19
Finance - Own Account*	1,146	1,196	1,092	1,316	1,184
Interest on Debt	10,873	10,337	9,694	9,752	10,329
Change Fund	-	-	-	-	328
Community Reinvestment Fund	561	557	622	652	656
Electricity Consumer Price Protection Fund	-	-	665	253	-
Power Purchases	695	815	786	799	946
Health and Long-Term Care*	22,530	23,738	25,607	28,100	29,652
Change Fund	-	-	-	-	609
SARS-related and Major One-Time Health Costs	-	-	-	842	-
Intergovernmental Affairs*	6	6	9	6	9
Labour	104	110	123	120	133
Management Board Secretariat*	144	246	172	268	355
Retirement Benefits	(33)	63	102	340	433
Contingency Fund	-	-	-	-	965
Municipal Affairs and Housing*	1,792	1,135	636	678	692
Native Affairs Secretariat	16	13	16	16	14
Natural Resources	417	438	454	518	505
Northern Development and Mines	69	75	73	79	73
Office of Francophone Affairs	4	5	3	4	4
Public Infrastructure Renewal*	9	15	33	23	31
Tourism and Recreation*	124	143	135	213	184
Training, Colleges and Universities	3,219	3,248	3,471	3,934	4,194
Transportation	593	664	801	808	862
Year-End Savings	-	-	-	-	(300)
Total Operating Expense	**62,019**	**63,984**	**66,616**	**72,270**	**77,024**

* Ministries restated to reflect new government structure.

Capital Expense [†] **Table A4**
($ Millions)

Ministry	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
Agriculture and Food	1	29	68	1	7
Attorney General	42	46	43	25	55
Children and Youth Services*	10	6	7	-	9
Community and Social Services*	4	25	16	10	21
Community Safety and Correctional Services	99	88	66	47	42
Consumer and Business Services	-	-	1	1	2
Culture	18	14	42	28	70
Economic Development and Trade*	-	19	21	32	39
Education	4	17	10	16	27
Energy	86	50	46	54	52
Environment	22	20	13	4	13
Finance*	7	11	8	5	4
Health and Long-Term Care	322	205	339	355	346
Management Board Secretariat**	24	28	3	(1)	(13)
Municipal Affairs and Housing*	-	12	20	208	234
Native Affairs Secretariat	5	3	2	-	2
Natural Resources	65	70	72	69	85
Northern Development and Mines	356	371	391	344	447
Public Infrastructure Renewal*	4	-	4	17	168
Capital Contingency Fund	-	-	-	-	150
Tourism and Recreation	14	9	55	54	65
Training, Colleges and Universities	204	49	71	121	171
Transportation	836	818	578	812	679
Year-End Savings	-	-	-	-	(100)
Total Capital Expense [†]	**2,123**	**1,890**	**1,876**	**2,202**	**2,575**

[†] Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

* Ministries restated to reflect new government structure.

** Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03 any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in Management Board Secretariat.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal

Schedule of Net Investment in Capital Assets
($ Millions) **Table A5**

	2004-05 Plan			
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	Total
Acquisition/Construction of Major Tangible Capital Assets	135	998	432	1,565
Amortization of Provincially Owned Major Tangible Capital Assets	(78)	(524)	(195)	(797)
Net Investment in Capital Assets*	**57**	**474**	**237**	**768**

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

Source: Ontario Ministry of Public Infrastructure Renewal.

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	1995-96	1996-97	1997-98
Financial Transactions			
Revenue*	49,473	49,450	52,518
Expense			
Programs	46,163	45,136	45,304
Capital**	3,635	2,612	2,451
Interest on Debt	8,475	8,607	8,729
Total Expense	58,273	56,355	56,484
Reserve	-	-	-
Surplus / (Deficit)	**(8,800)**	**(6,905)**	**(3,966)**
Net Debt†	**101,864**	**108,769**	**112,735**
Accumulated Deficit†	**101,864**	**108,769**	**112,735**
Gross Domestic Product (GDP) at Market Prices	329,317	338,173	359,353
Personal Income	271,397	276,303	289,537
Population—July (000s)	10,950	11,083	11,228
Net Debt per Capita (dollars)	9,303	9,814	10,041
Personal Income per Capita (dollars)	24,785	24,930	25,787
Total Expense as a per cent of GDP	17.7	16.7	15.7
Interest on Debt as a per cent of Revenue	17.1	17.4	16.6
Net Debt as a per cent of GDP	30.9	32.2	31.4
Accumulated Deficit as a per cent of GDP	30.9	32.2	31.4

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table A6

1998-99	1999-00	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
55,786	64,804	66,044	66,249	68,609	68,250	78,360
46,557	48,222	51,146	53,647	56,922	62,518	66,695
2,215	4,887	2,123	1,890	1,876	2,202	2,575
9,016	11,027	10,873	10,337	9,694	9,752	10,329
57,788	64,136	64,142	65,874	68,492	74,472	79,599
-	-	-	-	-	-	1,000
(2,002)	**668**	**1,902**	**375**	**117**	**(6,222)**	**(2,239)**
114,737	**134,398**	**132,496**	**132,121**	**132,647**	**139,405**	**142,412**
114,737	**134,398**	**132,496**	**132,121**	**118,705**	**124,927**	**127,166**
377,897	409,020	440,708	452,923	478,112	493,416	513,519
304,652	321,702	347,427	359,783	372,444	381,005	393,959
11,367	11,506	11,685	11,898	12,097	12,238	12,397
10,094	11,681	11,339	11,104	10,965	11,391	11,488
26,801	27,959	29,733	30,239	30,788	31,133	31,779
15.3	15.7	14.6	14.5	14.3	15.1	15.5
16.2	17.0	16.5	15.6	14.1	14.3	13.2
30.4	32.9	30.1	29.2	27.7	28.3	27.7
30.4	32.9	30.1	29.2	24.8	25.3	24.8

Multi-Year Balanced Budget Plan
($ Billions)

Table A7

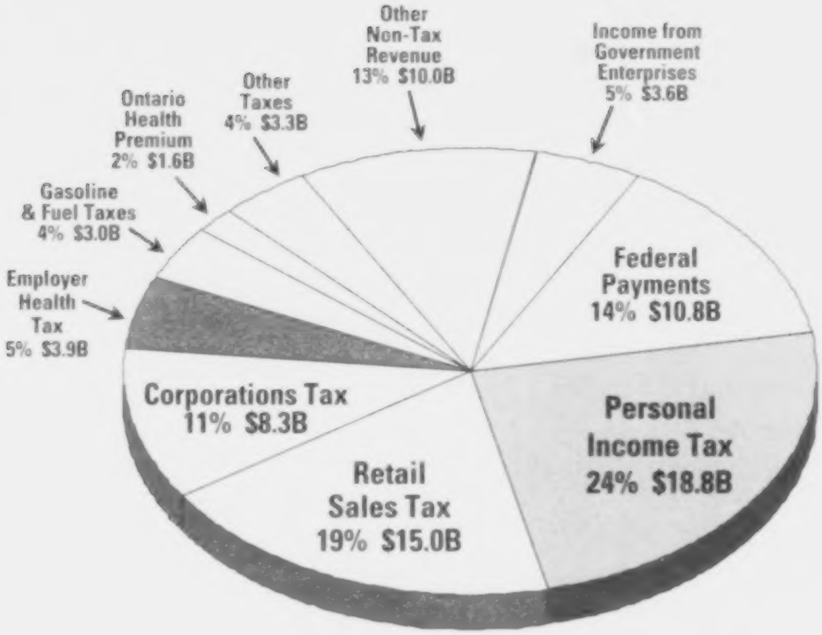
	Interim	Plan	Outlook		
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Revenue*	68.3	78.4	79.9	82.5	86.0
Expense					
Programs	62.5	66.7	67.2	68.9	70.6
Capital	2.2	2.6	2.5	2.5	2.5
Interest on Debt	9.8	10.3	10.8	11.1	11.5
Total Expense	74.5	79.6	80.5	82.5	84.5
Reserve	-	1.0	1.5	1.5	1.5
Surplus/(Deficit)	**(6.2)**	**(2.2)**	**(2.1)**	**(1.5)**	**0.0**
Net Debt†	**139.4**	**142.4**	**145.4**	**147.9**	**148.7**
Accumulated Deficit†	**124.9**	**127.2**	**129.2**	**130.7**	**130.7**
Gross Domestic Product (GDP) at Market Prices	493.4	513.5	539.2	567.3	597.4
Net Debt as a per cent of GDP	28.3	27.7	27.0	26.1	24.9
Accumulated Deficit as a per cent of GDP	25.3	24.8	24.0	23.0	21.9

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

† Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

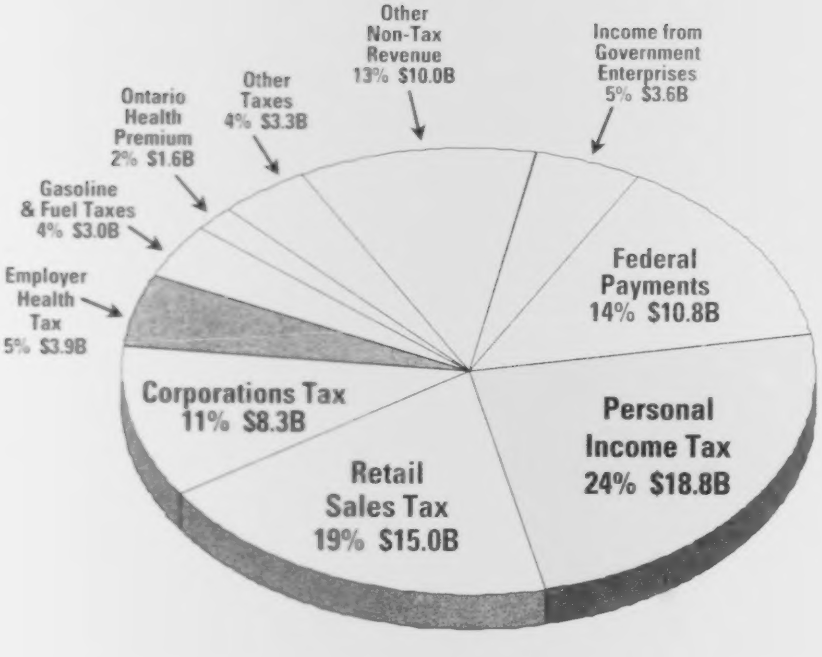
Numbers may not add due to rounding.

Composition of Revenue
2004-05



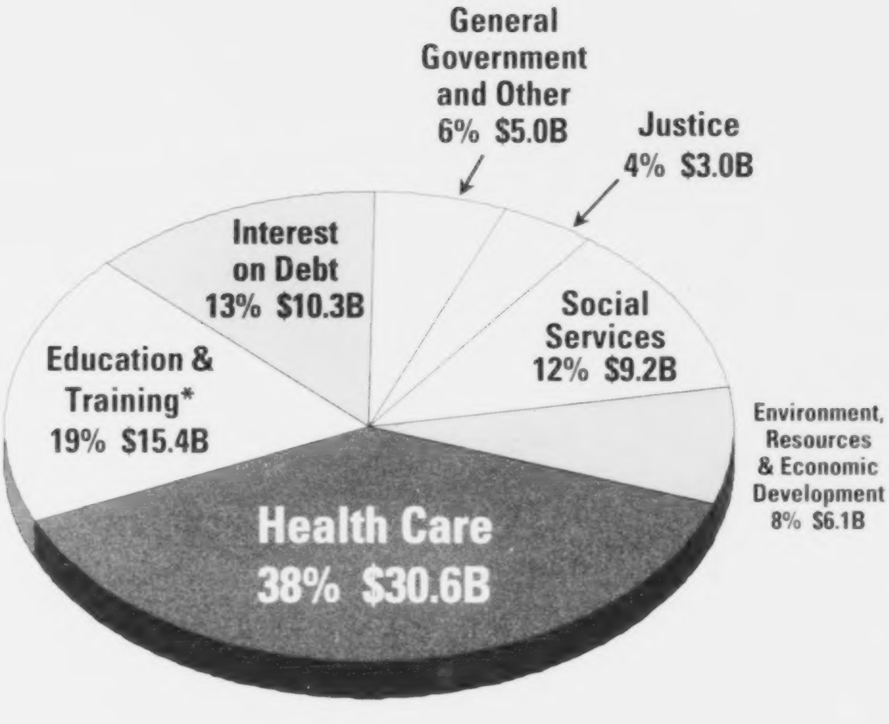
Note: Numbers may not add due to rounding.

Composition of Revenue
2004-05



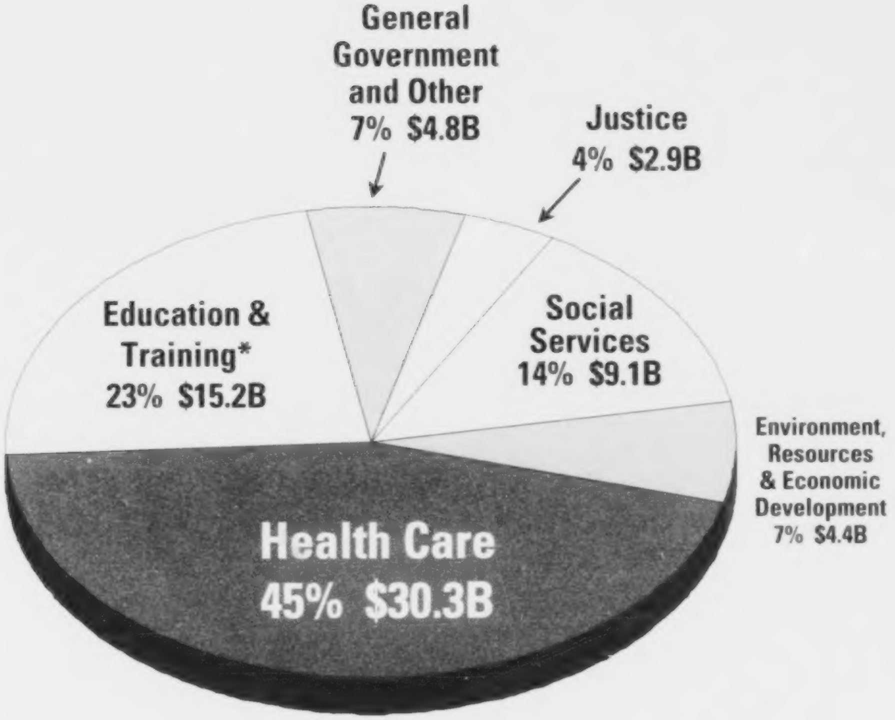
Note: Numbers may not add due to rounding.

Composition of Total Expense
2004-05



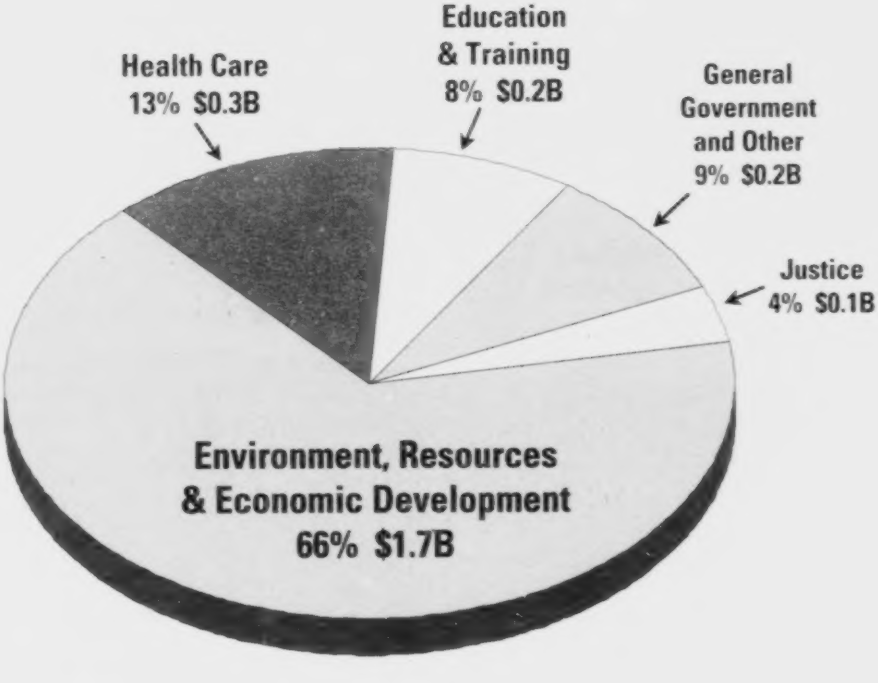
* Includes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Composition of Program Expense
2004-05



* Includes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Composition of Capital Expense
2004-05



Note: Numbers may not add due to rounding.

PAPER B

Ontario's Economy

Overview

The Ontario economy is expected to gain momentum in 2004 and to rebound from the series of shocks that slowed economic growth in 2003. Ontario's real gross domestic product (GDP) is forecast to grow by 2.3 per cent in 2004, and an average of 3.3 per cent over the period from 2005 to 2007. This growth will foster strong job creation and rising incomes. Inflation is expected to remain contained at around two per cent per year. The following table highlights the economic assumptions that have been used in developing Ontario's fiscal plan.

Ontario Economic Highlights
(Annual Average, Per Cent)

	2001	2002	2003	2004p	2005p	2006p	2007p
Real GDP Growth	1.8	3.6	1.3	2.3	3.2	3.3	3.4
Nominal GDP Growth	2.8	5.6	3.2	4.1	5.0	5.2	5.3
Unemployment Rate	6.3	7.1	7.0	6.7	6.5	6.2	5.9
CPI Inflation	3.1	2.0	2.7	1.9	2.1	1.9	1.8

p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

In most years, Ontarians can expect the province to be one of the fastest-growing regions of the advanced industrial world. Ontario benefits from a growing labour force, which is attracted and sustained by a high quality of life and equipped with the education, skills and initiative required to meet the needs of today's knowledge-based marketplace. As well, a favourable location in the North American marketplace and a hospitable business climate combine to make Ontario a prime location for investment.

From year to year, Ontario's economic performance is strongly influenced by developments outside its borders. The economic health of Ontario's primary trading partners—the rest of Canada and the United States—governs the demand for the province's exports. Interest rates affect the economy, for example, by encouraging or discouraging investment and home ownership. Movements in exchange rates affect the competitiveness of our industries in world markets and change the prices of imported goods. The last year demonstrated that the Ontario economy can also be jolted by unanticipated setbacks such as the SARS outbreak and the power blackout in August 2003.

Faced with the risk that circumstances may be less favourable than expected, this Budget employs economic planning assumptions that are prudent and below the current private-sector consensus.

Economic Growth Assumptions
(Per Cent)

	2004p	2005p	2006p	2007p
Real GDP Growth				
Private-sector survey average	2.7	3.5	3.4	3.4
Ontario's planning projection	2.3	3.2	3.3	3.4

p = projection.

Note: The number of forecasters falls from 10 in 2004, to 9 in 2005 and 4 in 2006 and 2007.

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (May 11, 2004).

The government's role in the economy is to strengthen the foundation for economic growth. That means economic policies that attract investment, encourage research and foster innovation. It also means creating a positive business climate by delivering vital public services efficiently and effectively. The modern, highly competitive, global economy demands no less.

Enhancing Ontario's competitive advantage means, above all, building on the talents of Ontarians, by providing all citizens with the opportunity to achieve their full potential. Ontario will develop its human resources through the education system, from pre-school to adult education. The government's goal is to ensure that Ontario has a high-wage, good-job economy for the next generation of Ontarians. The government's ambition is to build the most skilled workforce in North America.

The government has a further responsibility to support the economy through sound fiscal policy. That means responsible investments, within a balanced budget plan, that support growth, a competitive tax system, health care that employers can depend on for their employees, modern infrastructure, reliable electricity generation, and smart immigration and trade policies.

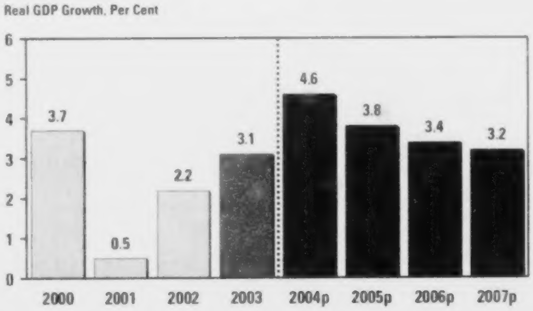
Strong U.S. Economic Growth

The performance of the world economy, and especially the U.S. economy, is a key determinant of Ontario's economic growth. In 2003, U.S. consumers and businesses purchased goods and services valued at about $200 billion from Ontario, equivalent to 40 per cent of the province's GDP. This represented more than 90 per cent of Ontario's international exports.

The prospects for the world economy are bright. Private-sector forecasters expect global economic growth to rise to 3.7 per cent in 2004 and 3.2 per cent in 2005, up from 2.6 per cent in 2003. The U.S. economy is expected to grow at an even faster pace. After strong growth in 2003, bolstered by low interest rates, substantial fiscal stimulus and a decline in the value of the U.S. dollar, private-sector forecasters anticipate that robust growth in the United States will continue through the next four years. Job creation in the United States has recently begun to accelerate. Forecasters expect job gains to be sustained, with employment rising 1.0 per cent in 2004 and 1.9 per cent in 2005. Stronger job creation will support income growth and consumer spending—welcome outcomes for Ontario. High productivity growth has raised profits, while the weakening U.S. dollar has lifted exports. Both of these trends will encourage businesses to boost investment spending on plant and equipment. As a result, real GDP is forecast to increase by 4.6 per cent in 2004, the fastest gain since 1984 and the strongest economic growth rate expected for any of the major industrial countries. Forecasters project growth of 3.8 per cent in 2005, 3.4 per cent in 2006 and 3.2 per cent in 2007.

While continued growth is expected, the U.S. economy faces a number of significant challenges, including widening government deficits and a substantial current account deficit. When and how these imbalances will be resolved creates a risk to U.S. growth projections.

U.S. Real Growth



p = projection
Sources: U.S. Bureau of Economic Analysis and Blue Chip Economic Indicators (March and May 2004)

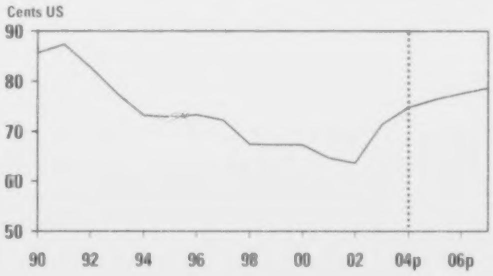
Canada's Rising Exchange Rate

The U.S. dollar has fallen against all of the major currencies with the exception of the Chinese yuan. As a result, the Canadian dollar has risen by close to 14 per cent relative to the U.S. dollar since the beginning of 2003. The euro is slightly higher at close to 17 per cent, while the Japanese yen has appreciated close to 10 per cent since the beginning of 2003. China, whose exports to Canada and the United States continue to grow very rapidly, maintains a fixed exchange rate with the United States.

A stronger Canadian dollar has some clear benefits, most notably raising the standard of living of Ontario consumers by making imported goods less costly. It also makes business investment in new, productivity-enhancing machinery and equipment more affordable, since about 60 per cent of this equipment is imported.

The unprecedented appreciation in 2003, however, made it difficult for exporters to maintain their competitiveness. Recently, the Canadian dollar has fallen back from over 78 cents US to under 73 cents US in early May, reducing the potential risk to economic growth.

Canadian Dollar



p = projection
Sources: Bank of Canada and Ontario Ministry of Finance

Canadian firms are confident in their ability to adjust to the appreciation of the currency. According to the Bank of Canada's most recent industry survey, many adversely affected firms have initiated measures to alleviate the impact of the higher dollar, primarily through measures to cut costs and improve productivity. In contrast, businesses favourably affected by the higher value of the dollar—those that use imported inputs that are now cheaper—have responded by reducing their selling prices as well as increasing their profit margins.

The depreciation of the U.S. dollar against other currencies is expected to resume, reflecting record-high current account deficits of close to five per cent of GDP and ongoing fiscal deficits of more than four per cent of GDP. In contrast, Canada's current account surplus, its commitment to sustainable public finances and rising global commodity prices are all consistent with a stronger Canadian dollar.

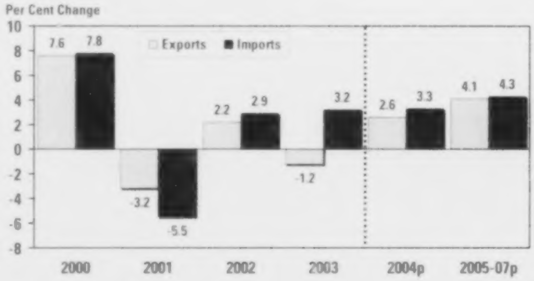
The Canadian dollar is expected to resume its appreciation, rising from an annual average of 71.4 cents US in 2003 to 74.8 cents US in 2004 and reaching 78.6 cents US by 2007.

The Outlook for Ontario Trade

The strong pickup in global economic growth, particularly in the United States, will provide a solid base of demand for Ontario exporters in 2004. While demand is strong, Ontario exporters face the challenge of remaining competitive in the global marketplace and adjusting to the higher dollar. As well, the Province has to work closely with the federal government and industry to facilitate cross-border trade and the timely resolution of trade disputes.

The volume of Ontario exports fell 1.2 per cent in 2003, while imports grew 3.2 per cent. Exports faced a series of obstacles in addition to the rise in the exchange rate. The SARS outbreak affected tourist spending in Ontario during the middle of the year and the blackout in August caused a sharp reduction in exports in that month. Despite a pickup in U.S. growth, Ontario exports have been slow to recover because the composition of U.S. demand has not been favourable. Furthermore, some of the increase in demand has been met by running down inventories. U.S. auto sales averaged 17.0 million units in 2003, down 0.7 per cent from the previous year.

Ontario Real International and Interprovincial Trade



p = projection
Sources: Statistics Canada and Ontario Ministry of Finance

The auto industry is Ontario's leading export sector. It accounts for close to 47 per cent of Ontario's international merchandise exports. Machinery and equipment ranks second, accounting for over 20 per cent of exports.

Private-sector forecasters expect a 14.5 per cent increase in U.S. business equipment and software spending in 2004, followed by a gain of 11.1 per cent in 2005. Over the same period, auto sales are projected to average just under 17 million units per year, near historic high levels.

The rise in the exchange rate is expected to dampen export growth in the near term with a 2.6 per cent gain expected in 2004. Real export growth is expected to strengthen to an average of 4.1 per cent in 2005 through 2007 as firms will have completed their adjustment to the higher exchange rate. Real imports are expected to grow at a similar pace, pulled by strong consumer and business spending growth.

Auto Industry

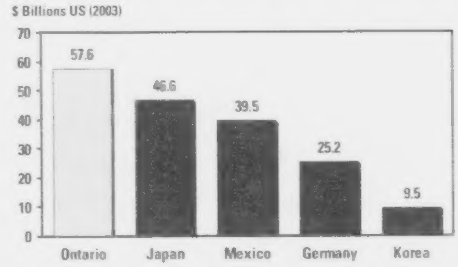
Ontario is the second-largest auto producer in North America, behind Michigan. It exports more vehicles and parts to the United States than Japan, Mexico or any other nation. The auto sector plays a critical role in the province's economic prosperity and trade performance.

The new Ontario Automotive Investment Strategy (OAIS) has been designed to ensure Ontario maintains its competitive advantages in auto and parts production. The strategy's $500 million fund will be directed at investment in new innovative technologies, enhanced skills training and public infrastructure necessary to keep the sector vibrant and maintain Ontario's position as a leading production jurisdiction into the future.

Competitive pressures in the North American auto industry are expected to remain intense. Despite the rise in the Canadian dollar, Ontario remains well positioned in the North American context for a number of reasons:

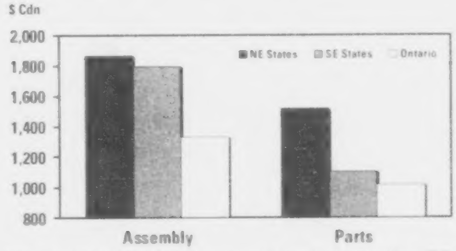
- Ontario's auto industry is closely integrated with Michigan, Ohio, Illinois and Indiana, as the leading vehicle and parts production region in North America. The Great Lakes region forms a premier location for integrated "just-in-time" production with huge flows of vehicle parts between its jurisdictions.
- Ontario's auto sector continues to enjoy a competitive advantage in labour costs, including health care costs, compared to its U.S. counterpart. In 2003, Ontario's wage advantage was 30 per cent in auto assembly and 29 per cent in parts manufacturing, based on an exchange rate of 75 cents US.
- Forty-three per cent of Ontario's auto manufacturing employees have completed post-secondary education, a much higher proportion than the 27 per cent in the United States. Ontario's highly skilled workforce has contributed to numerous auto-plant productivity and quality awards.

Ontario Largest Auto and Parts Exporter to U.S.



Note: Ontario Auto and Parts Exports = 96% of Canada
Sources: U.S. Census Bureau, Industry Canada and Ontario Ministry of Finance

Auto Assembly and Parts Manufacturing: Average Weekly Wage (including Health Costs)



Notes: 2002 data. $1 Cdn=$0.75 US. NE States include Michigan, Ohio, Indiana and Illinois. SE States include Alabama, Kentucky, Texas, Tennessee, S. Carolina and Mississippi.
Sources: U.S. Bureau of Labor Statistics, Statistics Canada and Ontario's Ministry of Finance.

Low Interest Rates and Moderate Inflation

Interest rates affect the spending decisions of businesses and households. The interest rates paid by Ontario borrowers depend on world financial markets and on the policy of the Bank of Canada. The Bank of Canada began cutting interest rates in mid-2003 as Canadian economic growth slowed and inflation remained low. Although there has been an improvement in external demand, particularly from the United States, Canadian consumer spending and business investment have been weak. In addition, inflation has fallen well below the Bank of Canada's two per cent target for core inflation. As a result, the Bank cut interest rates a further 75 basis points in early 2004 to support economic growth. The Bank's actions have lowered short-term interest rates by a total of 1.25 percentage points since last June, bringing them to their lowest level in more than 40 years.

Both the U.S. Federal Reserve and the Bank of Canada are expected to begin increasing short-term rates as economic growth strengthens in coming quarters. This will guard against inflationary pressures that would otherwise emerge over the next few years as the economies of the United States and Canada move closer to full capacity. Longer-term rates are also expected to rise moderately. Despite these increases, rates are expected to remain low by historic standards.

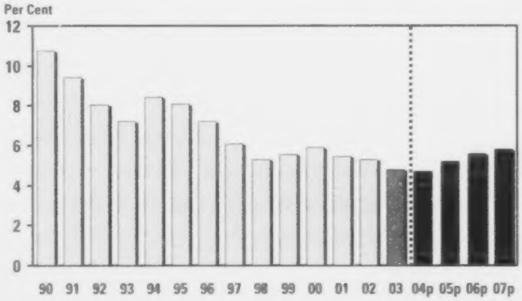
Interest Rate and Inflation Outlook (Annual Per Cent)

	2002	2003	2004p	2005p	2006p	2007p
3-Month Canadian Treasury Bill Rate	2.6	2.9	2.1	3.0	4.1	4.6
10-Year Government of Canada Bond Rate	5.3	4.8	4.7	5.2	5.6	5.8
Ontario CPI Inflation Rate	2.0	2.7	1.9	2.1	1.9	1.8

p = projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

The outlook for sustained low nominal interest rates reflects the Bank of Canada's commitment to low inflation. Ontario's CPI inflation rate is expected to drop from 2.7 per cent in 2003 to 1.9 per cent in 2004 and average close to 2.0 per cent over the next three years.

10-Year Government of Canada Bond Rate

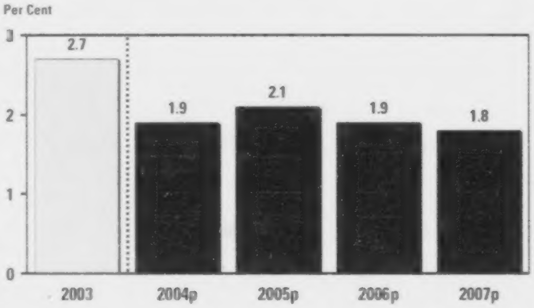


p = projection
Sources: Bank of Canada and Ontario Ministry of Finance

Prices for a wide range of commodities and industrial products have risen sharply over the past year and a half, reflecting strong demand, particularly from China. This is not expected to fuel broader inflation because resource inputs are only a small part of total costs. At the same time, high commodity prices benefit resource-based industries in Ontario and the rest of Canada.

Oil prices rose to $40 US a barrel in early May, the highest level in 13 years. Oil prices are expected to stay high in the near term because of tensions in several of the oil-rich regions of the world. This Budget's oil price assumption was based on the May Consensus Forecast that projects oil prices will fall to $30.40 US by the end of May 2005. Since December 2003, Ontario's average gasoline price has jumped from 66 cents per litre to over 80 cents in mid-May.

Ontario CPI Inflation Outlook



p = projection
Sources: Statistics Canada and Ontario Ministry of Finance

Exposure to External Shocks

The growth rate of the U.S. economy, crude oil prices, interest rates and the exchange rate can have a significant influence on Ontario's economy. The table below shows the typical range for the first- and second-year impact of changes in these outside forces on the real growth of our economy. These estimates are based on historic statistical relationships. They show the implications of changes in key assumptions in isolation from changes to other external factors. In any actual situation, the combination of other circumstances can also have a substantial bearing on the outcome. The range of possible impacts reflects a variety of factors.

- For example, each percentage point increase in U.S. real growth adds 0.3 to 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports to the prices charged to Canadian buyers for these goods and services.

The magnitude of these impacts shows the importance of cautious planning since the growth of Ontario's economy and revenues depends critically on external factors. Other unpredictable events, such as the outbreak of SARS and the power blackout last August, also underscore the need for prudent fiscal planning.

Impact of Changes in Key Assumptions on Ontario Real GDP Growth

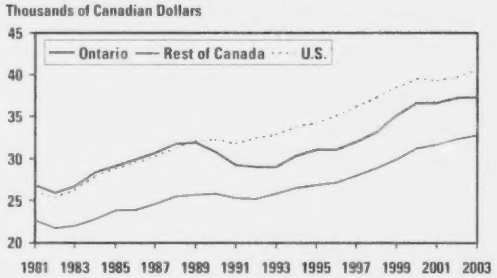
(Percentage point change)	First Year	Second Year
Canadian Interest Rates Increase by 1 Percentage Point	-0.1 to -0.5	-0.2 to -0.6
U.S. Real GDP Growth Increases by 1 Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Dollar Appreciates by 5 Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by $10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5

Source: Ontario Ministry of Finance.

Growth, Jobs and Prosperity

The goal of the Ontario Government, whatever the external circumstances that face the province, is to achieve strong economic growth and rising living standards. A key element of high living standards is focused, high-quality public services. Strong economic growth ensures that the government has the revenue that is needed to pay for government services. Without high-quality government services, Ontario will lose one of its main sources of competitive advantage. Without that advantage, the investment needed to generate growth will not materialize.

Ontario's GDP Per Capita Compared to the U.S. and Rest of Canada



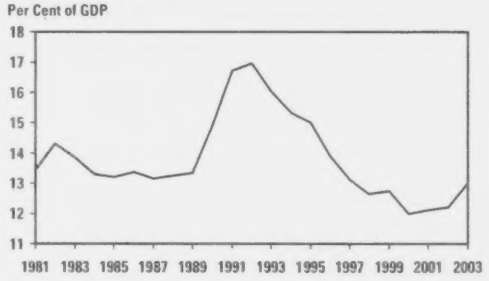
Note: U.S. converted to Canadian dollars using Statistics Canada purchasing power estimate of the exchange rate of 84 cents US

Sources: U.S. Bureau of Economic Analysis, Statistics Canada and Ontario Ministry of Finance

Economic growth, job creation, investment, innovation and rising productivity go together. The Ontario economy was plagued by instability and performed relatively poorly during the 1990s. In 1989, real GDP per capita in Ontario was about equal to the U.S. average and almost 25 per cent higher than the average in the rest of Canada. By 2003, Ontario was about 8 per cent below the United States and only 14 per cent above the rest of Canada. In comparison to all U.S. states and Canadian provinces, Ontario GDP per capita fell from 17th place in 1989 to 30th place in 2000.

That lost growth is one of the main reasons the Ontario Government has continued to suffer from major fiscal challenges, even though government spending was cut back sharply in the second half of the 1990s. When expressed as a share of GDP, Ontario government spending (excluding interest on debt, which provides no current benefit) fell by close to five percentage points between 1992 and 2000.

Ontario Government Spending Excluding Interest on Debt



Sources: Ontario Ministry of Finance and Fiscal Reference Tables

Over the past decade, business capital investment has averaged only 10 per cent of GDP in Ontario, compared to 11.3 per cent in the United States and 12.9 per cent in the rest of Canada. The low rate of investment has created a situation where a significant part of the population is underemployed, and therefore less productive than their potential.

Ontario has had a higher rate of population and labour force growth than the North American average. To achieve growth in the capital stock per worker, Ontario needs a higher rate of capital investment, not a lower one. Without adequate investment, productivity growth will languish.

Balanced policies will help foster the kind of economic environment that brings investment and high-income jobs for Ontario's skilled labour force. Balanced policies mean fiscal balance. As well, balanced policies mean that the scale and design of government spending strengthens Ontario's high quality of life.

One of Ontario's main sources of competitive advantage is its high quality of life. International rankings of the quality of life in major cities consistently rank Toronto among the highest in the world. That is the kind of advantage that matters. Companies know that in a technologically driven global economy, they will only be able to attract and retain educated workers by locating their businesses in places with a high quality of life.

Infrastructure Investment: The Foundation for Prosperity

Ontario has a rich, complex mix of public infrastructure systems worth more than $250 billion—such as education and health facilities, highways, transit, water and sewage treatment systems and other public facilities.

In many sectors, infrastructure investment has lagged economic and population growth, resulting in an infrastructure deficit.

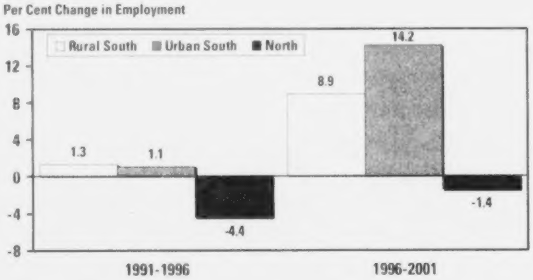
Beginning in 2004-05, the government is taking four key steps to improve Ontario's infrastructure:

- **Emphasize proper stewardship of Ontario's assets.** Much of this year's $2.6 billion infrastructure budget is devoted to the upkeep of existing assets. For example, the government will invest $490 million to rehabilitate and renew the highway system and more than $250 million in clean water initiatives.
- **Implement transformational or institutional change where needed.** The government is proposing to establish a Greater Toronto Transportation Authority to co-ordinate transportation planning and investment in the GTA. In addition, a long-term strategy is being developed to ensure that water and sewage systems are financially sustainable.
- **Improve infrastructure planning in all sectors and make it more forward-looking.** Ontario's first Minister of Public Infrastructure Renewal, with his colleagues, is developing Ontario's first 10-year strategic infrastructure investment plan.
- **Establish new sources of infrastructure funding and new financing tools.** Ontario is entering into agreements with the federal government that will increase both Provincial and federal investments in key infrastructure sectors. The new Ontario Strategic Infrastructure Financing Authority will provide pooled financing for public infrastructure projects. The government has also released a discussion paper, *Building a Better Tomorrow,* and is consulting on the best ways to finance future infrastructure investments. A new framework to guide infrastructure investment projects, based on clear principles, will be released in the near future.

High-quality government services will only add to Ontario's competitive advantage if the government delivers them differently and more efficiently. This will ensure that the taxes charged to pay for these services are reasonable and competitive.

Ontario's regional economies also face challenges that have built up over a period of many years. An important indicator of a region's current and future economic prospects is the rate of population growth. From 1996 to 2003, all of Ontario's regions experienced solid population growth except for Northern Ontario, where total population shrank by 5.3 per cent.

Northern Ontario Employment Lags Other Regions



Source: Statistics Canada 2001 Census

A fast rate of population growth—as in the Greater Toronto Area (GTA) and Central Ontario, which have experienced large gains from migration—presents unique challenges in accommodating that growth. On the other hand, the challenges of absolute and persistent population loss, as seen in Northern Ontario, present other difficult challenges to overcome. This is particularly the case when an important part of that population loss involves younger residents of the North leaving the region as they seek improved economic prospects. The North's poor labour market performance is reflected in its experience of job losses over the last two census periods.

The government is committed to promoting prosperity in the North by investing in infrastructure, providing support to small and medium-sized businesses, promoting northern communities to outside investors, and working with communities through new Northern Development Councils.

Effective, efficient and fair regulation that safeguards consumer and business interests is also vital for economic growth. In particular, the financial services sector plays a critical role in an economy by providing funds to companies to enable economic growth and job creation, and in providing a range of services to households to support saving, borrowing and investing. The sector is continually changing as innovative new financial products are introduced and new markets develop. Federal and provincial regulators play a role in shaping the environment in which the industry develops and grows. They also have responsibilities to protect consumers in a complex and changing financial marketplace.

The Ontario economy is in an enviable situation. It has an ideal geographic location in the heart of one of the most prosperous markets in the world. It has an excellent physical environment. It has one of the best-educated and healthiest populations in the world. With proper government stewardship, these fundamentals will allow Ontario to regain its status as one of the most prosperous jurisdictions in North America and the world.

A Plan to Promote Northern Prosperity

The government's Northern Prosperity Plan involves a range of targeted initiatives. The government recognizes that infrastructure development is key to supporting the northern economy. In 2004-05, a total of $285 million will be invested in improving the northern transportation system, including highway expansion and rehabilitation projects and other transportation investments. Key projects include expanding portions of Highways 11 and 69, and transforming the Ontario Northland Transportation Commission (ONTC). Another $135 million will be dedicated to investments in community infrastructure initiatives to help foster job creation through the Northern Ontario Heritage Fund. The Province will also continue to support other important capital initiatives. Construction is progressing on the new Northern Ontario Medical School, with campuses at Laurentian University in Sudbury and Lakehead University in Thunder Bay expected to open in September 2005.

The government understands the importance of safe drinking water and a clean environment in Northern Ontario. The Province's investments include $16 million to improve water systems in Sudbury and Thunder Bay and $10 million to help with the cleanup of abandoned mine sites on Crown land.

The government recognizes the importance of economic tools that help small and medium-sized enterprises thrive and create jobs and incomes. To this end, the Province is moving forward on its commitment to establish a Northern Ontario Grow Bonds program that would foster small and medium-sized business development. In 2004-05, the government proposes to establish a pilot program to issue provincially guaranteed bonds and use the proceeds to provide loans to new and growing businesses in northern communities.

The government is dedicating $10 million to a new initiative entitled the Government of Ontario (GO) North Investor program. The objective of this initiative is to build on the Grow Bonds program by attracting anchor investments to northern towns and cities. Ideally, these will be large-scale investments that promote innovation and growth in existing sectors such as mining and forestry, as well as new sectors for the North such as information technology. The focus of the program will be on increasing the North's presence internationally through marketing efforts led by the Ministries of Economic Development and Trade and Northern Development and Mines and by working with northern municipalities to develop an inventory of available sites and assets, to better present their communities' potential to investors.

Finally, a concentrated effort and a clear focus are needed to overcome the special challenges facing Northern Ontario. As a result, we propose to return the definition of Northern Ontario, for the purposes of government policy and program delivery, to what it was before September 2000. The ministries of Northern Development and Mines and of Municipal Affairs and Housing will work with other affected ministries to implement this change in the fall of 2004.

Ontario's Financial Services Sector

To ensure that Ontario-regulated financial enterprises can continue to compete and grow in dynamic local and global markets, and that Ontario consumers continue to be well protected, the government is taking steps to modernize regulatory frameworks in several financial markets. The objective is to enhance the efficiency and effectiveness of Ontario's financial regulation, by eliminating outdated rules that may be hampering economic activity, reducing needless regulatory cost and ensuring strong consumer protection in a changing market environment. As well, it is important to work with other jurisdictions to minimize overlap and duplication in financial services regulation, including regulations applying to deposit-taking institutions and insurance companies.

Mortgage Brokers constitute a fast-growing segment of Canada's mortgage industry, driven by consumers looking for the mortgage best suited to their needs. With the role of mortgage brokers in the industry expected to expand, it is timely for Ontario to modernize its regulatory framework and strengthen consumer protection. The government will review the *Mortgage Brokers Act* with a view to introducing a bill to replace the Act in 2005. In June 2004, Mike Colle, Parliamentary Assistant to the Minister of Finance, will begin discussions on the basis of a Consultation Paper.

Credit Unions and Caisses Populaires are key financial service providers in communities across Ontario. The sector has undergone significant changes in the 10 years since the legislation governing it was enacted. Outdated rules may be hampering the industry's ability to adapt to a changing marketplace. As well, Ontario's laws need to ensure an environment that enables credit unions to take advantage of strategies to strengthen their national presence, and to take account of changes made by other jurisdictions. The government will review the *Credit Unions and Caisses Populaires Act, 1994* with an intent to introduce amendments to this Act and others as necessary by the end of fiscal 2005-06 or earlier if needed.

Financial Services Regulatory Initiatives

- Review of the *Mortgage Brokers Act*.
- Review of the *Credit Unions and Caisses Populaires Act, 1984*.
- Proposal to amend the *Co-operative Corporations Act* to facilitate capital-raising.
- Proposal to extend by one year the registration deadline for trust companies.

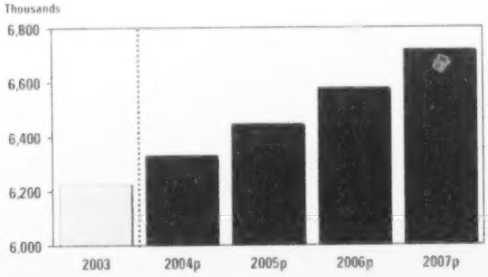
Co-operative Corporations have potential for continued development and growth. To improve their ability to respond to changing market conditions and the needs of their members, the government proposes to make amendments to the *Co-operative Corporations Act*. This would facilitate capital-raising by co-operatives and enhance their ability to attract well-qualified directors and officers.

Loan and Trust Corporations have been taking steps to comply with Ontario's plan to eliminate regulatory duplication in this sector. Ontario is exiting the field of loan and trust regulation, and companies will be subject to federal regulatory requirements only. To assist this transition, the government proposes to make an amendment to the *Loan and Trust Corporations Act*. Trust corporations would be able to apply to the Superintendent of Financial Services for an extension to the July 1, 2004 registration deadline of up to one year.

Job Creation

With a growing economy and a skilled and growing labour force, Ontario is expected to create 104,000 jobs in 2004, an increase of 1.7 per cent. Stronger economic growth in 2005 through 2007 is expected to generate further healthy job gains, averaging 2.0 per cent annually. A growing population and rising demand for a wide range of skills and abilities will result in more Ontarians entering the labour market. The proportion of the population in the labour force in 2003 was 68.4 per cent, the highest level reported since 1991. Even with a further rise in the participation rate, the unemployment rate is projected to fall from 7.0 per cent in 2003 to 5.9 per cent in 2007.

Ontario Employment



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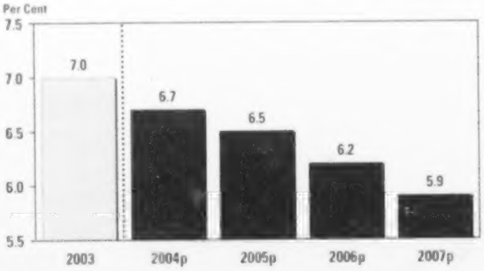
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario Unemployment Rate



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Sources: Statistics Canada and Ontario Ministry of Finance.

Job creation is the most important source of income growth. Personal income growth slowed from 3.5 per cent in 2002 to 2.3 per cent in 2003. Poor job growth in the middle of the year constrained the gain in labour income to 2.7 per cent, the lowest growth rate since 1996. A 2.3 per cent drop in investment income also contributed to the slowdown.

Personal income is expected to increase by 3.4 per cent in 2004. Improving demand and rising employment will lead to stronger growth in labour income, while the improvement in the stock market is expected to support a mild rebound in investment income. Over the medium term, personal income is projected to rise by 4.5 per cent in 2005, 4.8 per cent in 2006 and 4.9 per cent in 2007.

A Skilled Workforce

An educated and skilled workforce is a competitive advantage and a key factor in investment decisions. In a changing global economy, higher education and training are necessary complements to technological change and new opportunities.

Ontario will continue to support a high-quality and responsive post-secondary education and training system so that skills and labour shortages do not squander potential for economic growth. (See more details in Budget Paper A, *Ontario's Finances*.)

Apprenticeship is key to ensuring that Ontario has the skilled tradespeople the economy requires. Ontario employers will be faced with the challenge of replacing many retiring skilled workers.

To help employers become more active participants in apprenticeship training, this Budget proposes to introduce a new Apprenticeship Training Tax Credit to support training in the industrial, construction, motive power and certain service trades. This tax credit would generate more training spaces for apprentices and increase the availability of skilled workers in key sectors of the economy.

This Budget also supports the expansion of apprenticeship to 26,000 new entrants annually by 2007-08 through new funding of $1 million in 2004-05, rising to $11.7 million annually by 2006-07, to support apprentices' classroom training.

Most new immigrants to Ontario are highly educated. Yet their talents and skills often are not fully utilized, in large part due to lack of recognition of their credentials and experience. This Budget makes investments of $12.5 million annually by 2005-06 to break down barriers to their greater participation in and contribution to the Ontario labour market.

Too many youth drop out of school and end up with poor job prospects. Additional alternative options for helping them gain jobs and complete their education are introduced in this Budget:

- New academic upgrading and training options for high school leavers, with a focus on apprenticeship, with increased funding through the Ministry of Training, Colleges and Universities of $2 million in 2004-05, growing to $15 million in 2007-08.
- Fifteen hundred $1,000 scholarships annually for high school leavers who return to complete their high school credentials and enter apprenticeships, with funding of $3 million in 2004-05, growing to $4.5 million annually by 2005-06. This initiative also includes a $2,000 per-apprentice signing bonus for employers to encourage them to train these young people as apprentices.

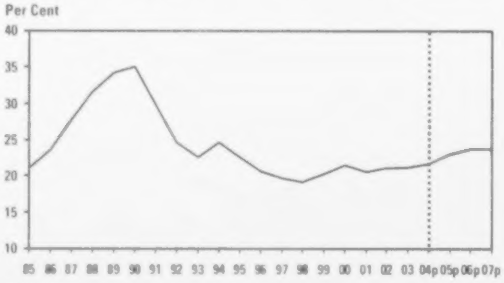
Growing Household Spending

Low interest rates, rising incomes and increasing wealth due to rising home values and stock-market gains will support growing household spending. However, the pace of growth is expected to moderate, reflecting the likelihood that pent-up demand for big-ticket items such as autos has to a large extent been met.

Ontario's housing market is expected to remain healthy in 2004. The current low interest rate environment and steady growth in employment and incomes will encourage high levels of home ownership. Interest rate cuts by the Bank of Canada have seen one-year fixed mortgage rates fall to 4.25 per cent. More people are choosing variable mortgage rates. Currently, the one-year variable mortgage rate is only 3.75 per cent. The current posted rate for a five-year fixed mortgage is 6.15 per cent. Negotiated rates can be 1.0 to 1.8 percentage points below the posted rate.

Ontario's population (15 years of age and older) is expected to grow by an average of 1.6 per cent annually over the next four years. The number of households is forecast to increase by about 300,000 over the same period, leading to a similar increase in the number of dwellings needed to house Ontario's population. The number of starts is projected to remain strong at about 78,000 units in 2004. Over the medium term, as home ownership remains affordable for most Ontario families, housing starts are projected to be healthy.

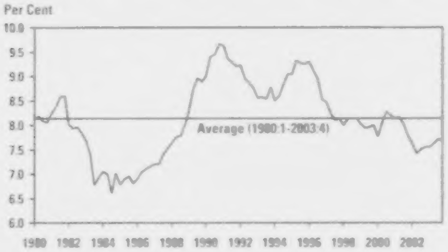
Housing Mortgage Payments as a Share of After-Tax Household Income



p = projection
Sources: Bank of Canada, Canada Real Estate Association and Ontario Ministry of Finance

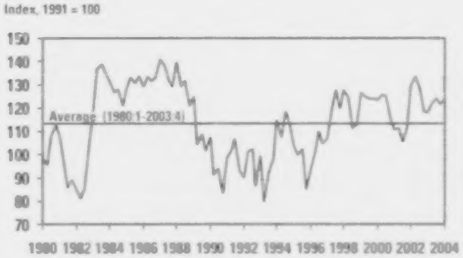
Led by buoyant housing-related expenditures, real consumer spending rose by 3.4 per cent in 2003. However, the pace of spending weakened towards the end of the year. Auto sales eased, with unit sales in the fourth quarter down by close to 17 per cent from the same period in 2002. Although the pace of spending is expected to pick up over the course of the year, average annual growth in real consumer spending is expected to moderate to 2.3 per cent in 2004, reflecting the drop-off in the final months of 2003. Consumer spending is expected to strengthen to 2.9 per cent in 2005, 3.0 per cent in 2006 and 3.2 per cent in 2007, reflecting stronger income growth and continued relatively low interest rates. The anticipated increased value of the Canadian dollar is one of the factors boosting consumers' spending power as imported goods become cheaper.

Canadian Household Debt Interest Costs (Per Cent of Personal Disposable Income)



Sources: Department of Finance Canada and Statistics Canada

Ontario Consumer Confidence



Source: Conference Board of Canada

Ontario household finances are in good shape to support consumer spending over the medium term. Low interest rates and steadily rising incomes have helped keep the interest cost of carrying debt at fairly low levels. The ratio of Canadian household debt costs to personal disposable income was 7.7 per cent in the fourth quarter of 2003, below the average of the period from 1980 to 2003. Rising house prices and increases in stock-market share values have boosted net wealth recently and helped underpin robust consumer confidence.

Investment Gains Strength

Increased investment creates better jobs, leading to higher productivity and faster increases in the standard of living. Ontario has a high quality of life and a highly skilled and well-educated workforce attracting innovative businesses that create high-quality jobs. Investments in innovation—including research and development—are catalysts for industry to make better use of economic resources, setting the stage for the next generation of economic growth in Ontario. Ontario's commitment to maintaining a competitive tax system, providing high-quality health care and renewing our infrastructure will help to strengthen the resurgence of investment that is now underway.

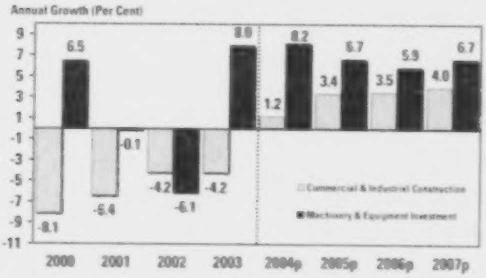
Government's Role in Creating a Positive Investment Climate

Business makes the investment decisions that create jobs and support Ontario's standard of living. Government actions and policies, however, play a crucial role in creating an environment that supports business investment.

- Ontario's public infrastructure must be kept in good repair. Ontario needs to invest to ensure that this infrastructure is able to meet the needs of a growing population and a growing and changing economy.
- Business requires a competitive environment, competitive taxes and a legal system that ensures respect for contracts and for property rights.
- A reliable electricity supply is crucial to the performance of a knowledge-based economy. Unreliable electricity hampers economic growth by causing unanticipated production interruptions and by discouraging investment in new enterprises.
- Ontario's tax system must not only generate the revenues needed to pay for public services, but must also be designed to promote investment and economic growth.
- Businesses and consumers need regulatory systems that effectively and efficiently meet vital public goals such as the protection of health, safety and a clean environment, and the assurance of honest and transparent financial markets.

Machinery and equipment investment began to recover in 2003 and is expected to grow strongly over the forecast period. The price of new machinery and equipment has fallen, since it is largely imported. Since machinery has become cheaper relative to wage costs, many companies will look to install new productivity-boosting equipment in order to cut costs and become more efficient. Non-residential construction is expected to turn around in 2004 as firms need to build new space and the government's focus on renewing infrastructure boosts institutional investment spending.

Real Business Investment



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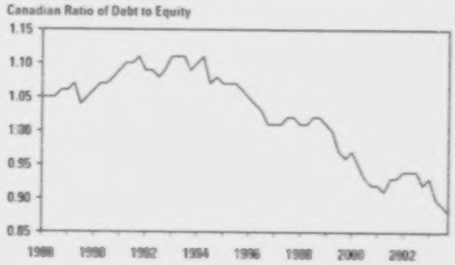
Sources: Statistics Canada and Ontario Ministry of Finance

Business Balance Sheets Are Strong



Source: Statistics Canada

Corporate balance sheets are also strong and business debt-to-equity ratios have declined. Corporate profits are forecast to grow by 5.8 per cent in 2004 and an average of 5.3 per cent over the period from 2005 to 2007. Healthy balance sheets and favourable financing conditions will support a pickup in investment spending as business responds to increasing demand.

Investment will also be supported by competitive corporate income tax rates. The combined federal and provincial general corporate income tax rate in Ontario will be about 36 per cent in 2004 compared to the current average of about 40 per cent in the United States. In addition to competitive tax rates, employers in Ontario benefit from publicly funded health care, which is a major expense for employers in the United States. U.S. manufacturing employers have a cost of about $2.13 US per hour per worker for health costs.

This Budget is proposing two important pro-investment tax reforms. The proposed gradual elimination of the capital tax would end a tax that does not exist in most other jurisdictions, and is seen as putting Ontario at a disadvantage in competing for investment. In addition, proposed capital cost allowance provisions would allow faster writeoffs on computer and data network infrastructure equipment. These initiatives are vital for Ontario's competitiveness in a high-technology world. The government believes that Ontario's tax laws must provide the proper degree of encouragement.

Conditions that are good for business investment in general are also good for investment in research and development (R&D). Industrial R&D aims to generate new products that will succeed in the marketplace. Industrial R&D also improves businesses' capacity to adopt new technologies and to innovate. The commercial benefits of industry investments in R&D translate to growth in jobs and incomes. Venture capital financing also plays a key role in the early success of companies with the potential for high growth in the most innovative business sectors. Because of the knowledge and skills that follow, venture capital is crucial for bringing innovations to market.

A major challenge is to improve on the commercialization of ideas derived from R&D performed in Ontario. Building on the province's strong scientific research base, the government will expand the focus of its innovation programs to enhance commercialization in Ontario's public research institutions. New funding will help these institutions gain better access to private capital. The Ontario Government will work with the federal government to maximize Ontario's participation in the venture capital initiatives announced in the 2004 federal Budget. In addition, the Task Force on Competitiveness, Productivity and Economic Progress will shift its next phase of research to include commercialization issues.

Investment in Innovation: Industrial R&D and Commercialization of Public Research

A major 2003 study by the Organization for Economic Co-operation and Development (OECD) on the sources of economic growth found a strong relationship between industrial R&D and growth in GDP per capita among OECD countries, including Canada.

- The latest provincial data indicate that a total of $10.3 billion was spent on all R&D in Ontario in 2001, or about 2.3 per cent of the province's GDP. This R&D investment intensity matches the 2001 average for OECD countries.
- Industry accounted for 70.9 per cent of Ontario's R&D expenditures in 2001, which is the highest proportion for all provinces and within range of the U.S. level of 73.3 per cent. Industry in neighbouring U.S. Great Lakes states, however, accounted for an average of 81.6 per cent of their total R&D spending.

Private capital investment also plays a major role in commercializing discoveries from public research institutions. The government is working to ensure that Ontario's high level of scientific output will reach its commercialization potential.

- The government will refocus current innovation programs towards commercialization. A new Ontario Research Commercialization Program will provide $27 million over four years in "proof of principle" funding to help public research institutions attract pre-seed investment.
- The government will provide new funding to strengthen the ability of research institutions to access private capital. Through the Ontario Commercialization Investment Funds program, the government will provide a maximum of $36 million to leverage up to $120 million in new pools of seed capital for spinoff technology companies created by faculty, staff and students (see Budget Paper C, *Ontario's Revenue Plan*, for details).

The Economic Outlook and Ontario Revenues

Ontario's revenue outlook hinges on the province's economic performance. The economic assumptions that have been described and the measures proposed in this Budget underlie Ontario's revenue outlook. Projected revenues are shown in the following table.

Revenue
($ Billions)

	Interim	Projection			
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Taxation Revenue					
Personal Income Tax	17.8	18.8	19.9	21.1	22.4
Retail Sales Tax	14.3	15.0	15.9	16.9	17.8
Corporations Tax	7.2	8.3	8.6	8.9	9.2
Ontario Health Premium	0.0	1.6	2.4	2.5	2.6
All Other Taxes	9.9	10.2	10.9	11.2	11.5
Total Taxation Revenue	49.2	54.0	57.7	60.6	63.5
Government of Canada	10.0	10.8	11.6	11.4	11.8
Income from Government Enterprises	3.1	3.6	4.1	4.0	4.1
Other Non-Tax Revenue*	6.1	10.0	6.4	6.5	6.6
Total Revenue	**68.3**	**78.4**	**79.9**	**82.5**	**86.0**

Note: Numbers may not add due to rounding.

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

Ontario revenues are expected to total $78.4 billion in 2004-05—an increase of $10.1 billion from 2003-04. Over the next three fiscal years (including 2004-05), the average annual increase in total revenue that can be expected is $3.9 billion. This excludes the one-time electricity revenue gain in 2004-05 arising from the proposed elimination of the non-utility generator power purchase contracts liabilities.

Personal Income Tax (PIT) revenues are expected to grow, on average, by 6.0 per cent. This is consistent with the forecast for growth in jobs, wages and incomes in the Ontario economy. PIT revenues grow at a rate faster than incomes because of the progressive structure of the income tax system. This means that individuals with higher real incomes pay proportionately more tax.

Retail Sales Tax (RST) revenues are expected to increase by an average of 5.8 per cent. This is consistent with the forecast for increased prices and real consumer spending.

Corporations Tax, which includes the Corporate Income Tax, Capital Tax and Insurance Premiums Tax, is anticipated to increase as corporate profits and investment spending grow. This revenue growth reflects the measures contained in the *Fiscal Responsibility Act, 2003* and the measures proposed in this Budget.

Full details of the outlook for Ontario's revenues, including federal transfers and other non-tax revenues, are contained in Budget Paper A, *Ontario's Finances*.

If the economy is stronger or weaker than projected, Provincial revenues will also be stronger or weaker. The following table shows the estimated impact of a one percentage point change in real GDP growth.

Sensitivity of the Revenue Outlook to Changes in Economic Assumptions

The following table shows the sensitivity of Ontario revenues to changes in forecast economic growth.

Cumulative Impact of Changes in Economic Assumptions on Ontario Revenues ($ Millions)

	Full Year 2004-05	Full Year 2005-06	Full Year 2006-07
Sustained 1 Percentage Point Higher Real GDP Growth	580	1,220	1,925

Note: These are average estimates that could vary significantly depending on detailed composition of the divergence from the original forecast.

Source: Ontario Ministry of Finance.

The table below shows the Ministry of Finance's forecast for the Ontario economy through 2007.

The Ontario Economy, 2001 to 2007

	Actual			Projected			
(Per Cent Change)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Real Gross Domestic Product	**1.8**	**3.6**	**1.3**	**2.3**	**3.2**	**3.3**	**3.4**
Personal consumption	2.4	3.6	3.4	2.3	2.9	3.0	3.2
Residential construction	9.2	9.6	5.1	3.4	-1.4	2.7	3.2
Non-residential construction	-6.4	-4.2	-4.2	1.2	3.4	3.5	4.0
Machinery and equipment	-0.1	-6.1	8.0	8.2	6.7	5.9	6.7
Exports	-3.2	2.2	-1.2	2.6	4.4	4.0	3.9
Imports	-5.5	2.9	3.2	3.3	4.3	4.3	4.2
Nominal Gross Domestic Product	**2.8**	**5.6**	**3.2**	**4.1**	**5.0**	**5.2**	**5.3**
Other Economic Indicators							
Retail sales	2.6	5.6	2.8	3.5	4.1	4.1	4.3
Housing starts (000s)	73.3	83.6	85.2	77.6	76.0	75.0	74.0
Personal income	3.6	3.5	2.3	3.4	4.5	4.8	4.9
Wages and salaries*	4.0	4.6	2.7	3.1	4.4	5.1	5.2
Corporate profits	-11.5	16.7	1.6	5.8	4.9	5.0	5.9
Consumer Price Index	3.1	2.0	2.7	1.9	2.1	1.9	1.8
Labour Market							
Employment	1.5	1.8	2.6	1.7	1.8	2.0	2.1
Job creation (000s)	91	105	161	104	114	132	140
Unemployment rate (per cent)	6.3	7.1	7.0	6.7	6.5	6.2	5.9

* Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, and Ontario Ministry of Finance.

PAPER C

Ontario's Revenue Plan

Part 1: Paying for Better Health Care

Introduction

Expenditures through the Ministry of Health and Long-Term Care now account for 45 per cent of Provincial program spending, up from 40 per cent a decade ago. Ontario spends an average of $2,441 per person for health care, up from $1,928 in 2000-01. This is about $2,000 more in additional spending per year for a family of four people. Since 2000-01 alone, total operating spending by the Ministry of Health and Long-Term Care has increased by $7.7 billion and has grown at an average annual rate of 7.7 per cent.

This rate of increase is not sustainable, and can only perpetuate the "crowding out" of available funding for other priorities in the future.

The Government of Ontario will provide a health care system that is sustainable and delivers high-quality, results-focused and patient-centred health care to Ontarians where and when it is needed at a level of spending growth that will be more affordable. To achieve the objectives that have been set, the system must be supported with an adequate amount of revenue.

Existing Revenues Are Not Enough

Ontarians understand that health care, by virtue of the extensive knowledge base, complexity of procedures and wide array of providers, imposes significant costs. They also recognize that a number of factors have been placing considerable pressure on Ontario's health care delivery services and driving up costs.

Changing demographics, for example, affect future demand for health care services and the human capital required to provide these services. Ontario's seniors currently make up close to 13 per cent of the population, but account for about 50 per cent of Provincial health spending. The seniors' population in Ontario is expected to rise from 1.5 million in 2003 to almost 3.2 million in 2028.

In addition, transforming how health care is delivered—making it better and more sustainable—requires investments that will buy change and maintain the system so crucial to Ontarians. As the 2002 Kirby report noted, "responsible planning of public policy must include additional funding for health care, including funding the costs of restructuring the system."[1]

It is vital that the health care system be supported with adequate and predictable financing so that health care providers can plan for the services Ontarians need and expect. It is also vital that health care financing be considered in the context of the need to eliminate the deficit.

Ontario Health Premium

Ministry of Health and Long-Term Care costs are up by $2.2 billion in 2004-05 over the previous year.

Increased health spending would support a variety of initiatives to improve and transform the health care system including:

- $111 million for primary care initiatives leading ultimately to 150 primary care teams providing 24/7 health care services;
- providing an additional 21,400 Ontarians with home care in their communities;
- buying 12,000 bed lifts to improve working conditions for nurses;
- improving infectious disease control, adding three new vaccines for children, and implementing a comprehensive tobacco strategy;
- opening 3,760 additional beds to improve safety and quality of care for residents of long-term facilities; and
- supporting an additional 13,650 mental health clients in their communities.

Moreover, the cost of achieving healthier Ontarians is not just found in the budget of the Ministry of Health and Long-Term Care. For example, health services are also provided by the Ministry of Children and Youth Services and the Ministry of Community and Social Services, and the full range of health care determinants also includes such spending as that on clean water and air.

Budget Paper A, *Ontario's Finances*, provides a complete description of the $2.4 billion in additional investments being made in this fiscal year to promote healthier Ontarians.

The government will introduce legislation to create the Ontario Health Premium. The government reviewed a variety of alternatives and determined that this was the best way to raise additional revenue to support initiatives to improve and transform health care.

The proposed premiums would rise with income. Proposed premiums compare to typical health services as follows:

- the average cost of one night in hospital is $851, which is about $100 more than a person who earns $75,000 annually would pay as a premium;
- a normal birth costs about $1,570, which is roughly equal to five years' annual premiums for an individual earning $30,000 per year;
- the average cost of an MRI, $290, is just under one year's premium for an individual who earns $25,000 annually; and

- covering the cost of treating one person who has suffered a heart attack requires premiums from more than 10 people earning $40,000 per year.

The Kirby report recognized that health care premiums could constitute a visible and equitable means of raising money for the purposes of health care if the premiums vary in proportion to income.[2] The report also acknowledged the practicality of collecting a premium through the income tax structure rather than through a separate administration. The health care premium proposed in this Budget is consistent with that advice.

By raising revenues to fund health care, this government will be able to move forward in other areas that are priorities for Ontarians—education, help for the most vulnerable and eliminating the deficit.

The Federal Government Plays an Important Role

The Government of Ontario recognizes that the federal government has a role to play in providing health care for all Canadians. Additional federal funding is necessary to allow for reform of the system and continuing improvements that Ontarians—like Canadians everywhere—have come to expect.

The Kirby report observed that "Canadians want the provinces, the territories and the federal government to work collaboratively in partnership to facilitate health care renewal. Canadians are impatient with blame-laying; they want intergovernmental co-operation and positive results."[3] The Romanow report, too, noted the need for a "truly national approach to medicare."[3a]

This government will not perpetuate the "blame game" of the past or suggest that all of Ontario's fiscal challenges are, in one way or another, the federal government's fault. In fact, this government acknowledges the very important improvements that the federal government has made to its health and social transfer payments in the last several years.

But there is more that the federal government can and must do to ensure that our health care system remains sustainable.

Health care in Canada is set out in the Constitution as a provincial responsibility. But health care in Canada is more than just another provincial spending program. Prime Minister Paul Martin had it right when he said that "there is no other issue of such vital and visceral significance to Canadians. Nowhere does government interact with people in a more meaningful and consequential way."[4]

The federal government has a vital role to play in the future of Canada's health care system. A variety of studies have concluded that there is a fundamental mismatch of revenue-raising and expenditure responsibility in Canada. The 2004 federal budget forecast a budgetary surplus of $4 billion this year.

A recent study released by the Conference Board of Canada shows that federal surpluses are predicted to rise steadily over the next 17 years, reaching $78 billion by 2019-20. In sharp contrast, the provinces and territories will be in an aggregate deficit position throughout the same forecast period. The total provincial/territorial deficit for all provinces is expected to reach $11 billion by 2019-20.[5]

Quite simply, federal-provincial fiscal arrangements have not kept pace with change. As the Romanow report noted, "the time has come for Ottawa to once again take on more of an equity position in the medicare enterprise."[6] Putting health care on a sustainable footing in the coming years will require additional federal funding, and the federal government has the ability to provide that funding.

The Government of Ontario is not simply asking the federal government to open its cheque book. Ontario does not expect the federal government to provide increased funding without any sense of how the funding will be used, what goals it will further or the outcomes it will support. Ontario has a plan for investments in health care that will achieve tangible, improved results for Ontarians. The federal government's increased fiscal participation is key to ensuring that adequate investments are made across the full range of health determinants towards the achievement of Ontario's ultimate objective: healthier Ontarians.

This government sees the federal government as an important partner in keeping Canada's health care system not only sustainable, but also a matter of national pride and international envy. Ontario is ready to work with the federal government and the other provinces to achieve a sustainable health care system.

Part 2: Revenue Measures

The following sections provide information on the revenue measures proposed in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation once approved by the legislature.

Ontario Health Premium

Structure and Application

This Budget proposes the introduction of a new health care premium. The premium proposed in this Budget is unrelated to eligibility for health care services.

Unlike the old OHIP program, the health premium proposed in this Budget would increase as income rises. When fully implemented, individuals with incomes below $20,000 would pay nothing; individuals with modest incomes would pay $300 per year; and individuals with higher incomes would pay a maximum of $900 per year. The premium structure would be as follows:

	Proposed Premium	
Taxable Income	**2004 Taxation Year**	**2005 and Subsequent Taxation Years**
up to $20,000	$0	$0
$20,000 - $36,000	$150	$300
$36,000 - $48,000	$225	$450
$48,000 - $72,000	$300	$600
$72,000 - $200,000	$375	$750
more than $200,000	$450	$900

The first premium level would be phased in at six per cent of taxable income in excess of $20,000, with the full premium payable at taxable income of $25,000. For example, an individual with taxable income of $22,000 would pay $120 in 2005. Each subsequent increase in premium level would be phased in over the first $600 of taxable income in that range at a rate of 25 per cent. The phase-in rates for 2004 would be one-half the rates for 2005. As a result, the premium for 2004 would be $60 for an individual with taxable income of $22,000.

The premium would apply to individuals who are residents of Ontario on the last day of their taxation year. Trusts and non-resident taxpayers would be exempt from the premium.

Individuals who become bankrupt during the year would be required to pay the premium based on their taxable income for the full calendar year. For individuals who die or emigrate from Canada during the year, the premium would be determined based on taxable income reported in the final Ontario tax return.

Administration

To simplify compliance for premium payers and minimize administrative expenses, the Province will work with the Canada Revenue Agency to collect and administer the premium on Ontario's behalf.

Since the premium is proposed to be implemented through the *Income Tax Act* and administered under the existing Tax Collection Agreement between Ontario and the federal government, income tax withholding and instalment rules would apply.

Withholdings will commence July 1, 2004. To ensure that employers do not incur added costs to change their payroll systems, the premium would be included on pay stubs as a component of the income tax withheld. Individuals who make income tax instalment payments will have the option of adding the proposed premium to the remaining instalment payments for 2004 and the first two instalments in 2005. Individuals would determine the actual amount of the premium on their annual tax returns.

Legislative Review

A full review of the premium by a committee of the legislature is proposed to take place by 2009.

Corporate Tax Measures to Encourage Economic Growth

Plan to Eliminate the Capital Tax

Ontario's capital tax is widely recognized as a barrier to attracting the investment that Ontario needs to build an innovative economy of high-wage and high-skill jobs. The government proposes to implement a fiscally prudent plan to gradually eliminate the capital tax by 2012:

- Starting January 1, 2005, the current $5 million deduction from taxable paid-up capital would be increased by $2.5 million each year until the deduction reaches $15 million on January 1, 2008. By that time, in addition to small businesses that do not pay capital tax, more than 13,000 medium-sized corporations would no longer pay capital tax.
- Starting January 1, 2009, capital tax rates would be reduced each year until the capital tax is fully eliminated on January 1, 2012.

The following table sets out the government's proposed plan to eliminate the capital tax:

			Financial Institutions		
				Taxable Capital Above $400 Million	
	Deduction ($ Millions)	Regular Corporations (%)	First $400 Million of Taxable Capital (%)	Non-Deposit Taking (%)	Deposit Taking (%)
Current	5	0.300	0.600	0.720	0.900
January 1, 2005	7.5	0.300	0.600	0.720	0.900
January 1, 2006	10.0	0.300	0.600	0.720	0.900
January 1, 2007	12.5	0.300	0.600	0.720	0.900
January 1, 2008	15	0.300	0.600	0.720	0.900
January 1, 2009	15	0.225	0.450	0.540	0.675
January 1, 2010	15	0.150	0.300	0.360	0.450
January 1, 2011	15	0.075	0.150	0.180	0.225
January 1, 2012			Eliminated		

The proposed increases in the deduction and the cuts to the tax rates would be pro-rated for taxation years straddling the effective dates.

Capital Cost Allowance Enhancements

In order to help Ontario businesses put the right tools in place to build an innovative economy of high-wage and high-skill workers, this Budget proposes to enhance the capital cost allowance (CCA) for newly acquired computer and data network infrastructure equipment.

Ontario proposes to parallel the CCA changes announced in the 2004 federal budget. This includes the CCA rate increase from 30 per cent to 45 per cent for computer equipment and the rate increase from 20 per cent to 30 per cent for data network infrastructure equipment acquired after March 22, 2004.

Enhancements to the Ontario Film and Television Tax Credit

Ontario's domestic film and television industry contributes significantly to Ontario, both economically and culturally. In 2003, Provincial support to the film and television industry levered over $500 million in activity from 133 domestic productions.[7] Ontario's film and television production, distribution and exhibition industries employ about 20,000 workers.[8]

The Ontario Film and Television Tax Credit (OFTTC) helps support this sector by providing

Ontario-based, Canadian-controlled production companies with a 20 per cent refundable tax credit on Ontario labour expenditures incurred in making film and television productions.

To further encourage production activity in Ontario, this Budget proposes to enhance the OFTTC.

Effective for productions commencing principal photography after March 27, 2003, qualifying labour expenditures would not be reduced by equity investments from Canadian government film agencies.

The OFTTC would also be amended to parallel the following enhancements to the federal Canadian Film or Video Production Tax Credit announced on November 14, 2003, including their effective dates:

- the extension to the commencement time for a production, which would allow qualifying labour expenditures to be incurred as early as two years before principal photography begins; and
- the provision allowing a person, other than the production company, to hold an interest in a film or television production, unless the production or one of the investors is associated with a tax shelter.

Apprenticeship Training Tax Credit

As part of building a solid foundation to support a new generation of economic growth, the government proposes to introduce a new Apprenticeship Training Tax Credit (ATTC) to encourage the hiring of apprentices in certain skilled trades. The ATTC would complement other apprenticeship program measures that are being announced in this Budget to help increase the availability of skilled workers in key sectors of the economy.

Tax Incentive

Corporations and unincorporated businesses would be eligible for a 25 per cent refundable tax credit on eligible expenditures incurred with respect to eligible apprentices. For businesses with total payroll costs not exceeding $400,000, the tax credit rate would be increased to 30 per cent.

An employer would be eligible for a tax credit of up to $5,000 per year per eligible apprentice to a maximum of $15,000 over the first 36 months of the apprenticeship. The maximum annual tax credit of $5,000 would be pro-rated for the number of days the apprentice is employed with that employer during the year.

Eligible Apprentices

Eligible apprentices would be in their first 36 months of an apprenticeship training program in a qualifying skilled trade on or after May 19, 2004 and have commenced employment before January 1, 2008.

Eligible Expenditures

Eligible expenditures would be salaries and wages paid after May 18, 2004 and before January 1, 2011 to an eligible apprentice.

Qualifying Skilled Trades

Qualifying skilled trades would include designated construction, industrial and motive power trades, as well as the service trades eligible under the present apprenticeship component of the Co-operative Education Tax Credit.

Sunset Provision

Prior to December 31, 2007, the government would consult with stakeholders on the effectiveness of the ATTC. Stakeholders would be expected to provide evidence of the tax credit's effectiveness as a condition for continuing the incentive program.

Revising the Co-operative Education Tax Credit (CETC)

The CETC provides employers with a 10 per cent refundable tax credit (15 per cent for small businesses) on the salaries and wages paid to students or apprentices in qualifying work placements.

The following changes are proposed to the CETC:

- The CETC would continue to be available for qualifying co-op placements.
- Transitional rules are proposed for apprenticeships in their first 36 months that straddle May 18, 2004. Salaries and wages paid before May 19, 2004 would qualify for the CETC, and amounts paid after May 18, 2004 would qualify for the proposed ATTC.
- For apprenticeships not in their first 36 months and for work placements in approved fields of study other than co-operative education programs, no deduction may be claimed for salaries and wages paid after December 31, 2004. Since a minimum initial employment of 10 weeks is required for the CETC, employment commencing after October 25, 2004 would not qualify. These fields of study are listed in Appendix 2 of Tax Legislation Bulletin 96-2R2.

Apprenticeship Training Tax Credit (ATTC)

Skilled trades qualifying for the ATTC would include:

Construction Trades

- Plumber
- Sheet metal worker
- Electrician
- Refrigeration and air conditioning mechanic
- Brick and stone mason
- General carpenter
- Ironworker
- Hoisting engineer
- Power lineworkers

Motive Power Trades

- Automotive service technician
- Fuel and electrical systems technician
- Auto body and collision damage repairman
- Truck and coach technician
- Motive power machinist
- Heavy duty equipment technician
- Marine engine mechanic

Industrial Trades

- General machinist
- Tool and die maker
- Machine tool design
- Industrial electrician
- Industrial mechanic (millwright)
- Precision metal fabricator
- Cabinet maker
- Mould maker

Services Trades[9]

- Electronic service technician
- Micro-electronics manufacturer
- Network cabling specialist
- Information technology support analyst

Resource Allowance

Effective for taxation years ending after December 31, 2002, the federal government has implemented legislation that replaces the 25 per cent resource allowance with a deduction for Crown royalties and mining taxes paid.

To support the jobs and investment created by the mining sector in northern communities, Ontario proposes not to parallel the federal measure. Instead, Ontario would maintain the resource allowance and the non-deductibility of Crown royalties and mining taxes retroactive to the commencement of the federal change.

Enrichment of Property Tax Credit

Ontario property and sales tax credits for seniors were established in 1992 to provide additional assistance to seniors with modest incomes and have remained unchanged since their creation. This government is proposing to enhance the program for the first time to ensure that it better reflects the circumstances facing seniors in Ontario today.

Lower-income seniors who own or rent their homes would be eligible for additional assistance through the Ontario property and sales tax credits, effective for the 2004 and subsequent taxation years. The underlying "basic" property tax credit amount would be increased by $125, or 25 per cent, from $500 to $625. In addition, to ensure that seniors currently receiving the maximum basic property tax credit amount would benefit fully from the proposed $125 enrichment, the maximum benefit available for the property and sales tax credits for seniors would be increased from $1,000 to $1,125.

This improvement would deliver an estimated $85 million in benefits to about 685,000 senior families, including approximately 33,000 senior families who do not currently benefit from the credit.

Other Revenue Measures

Federal Concordance

Subject to any necessary modifications, Ontario proposes to parallel the following income tax measures announced in the federal budget of March 23, 2004 as they apply to corporations and their effective dates:

- the extension of the carry-forward period for business losses from seven to 10 years;
- the limits on the deductibility of fines and penalties, patronage dividends and unused charitable donations; and
- the amendments to the general anti-avoidance rule and the affiliated persons rules.

Also, it is proposed that the relaxation of the associated corporations rule for purposes of the $2 million expenditure limit under the refundable portion of the federal investment tax credit for scientific research and experimental development would apply to the Ontario Innovation Tax Credit.

Retail Sales Tax Act

One-Year Retail Sales Tax (RST) Exemption for Destination Marketing Fees

In support of the hotel industry's initiative in funding tourism marketing and assisting in the recovery of Ontario's tourism industry, it is proposed that the destination marketing fee be exempt from RST for a one-year period.

The temporary exemption from the five per cent RST accommodations tax on this fee would be effective for destination marketing fees billed after May 18, 2004 and before May 19, 2005.

Retail Sales Tax Rebate for Wind, Micro-Hydroelectric and Geothermal Energy Systems for Residential Premises

The government will be proposing legislation to expand the RST rebate for solar energy systems to include wind energy systems, micro-hydroelectric systems and geothermal heating/cooling systems for residential premises. This proposal recognizes that these systems enable homeowners to be more energy self-sufficient using clean, renewable energy.

The rebate would be available for purchases made after March 27, 2003 and before November 26, 2007.

Tobacco Tax Act

Tobacco Tax Increase

In support of the government's Ontario Tobacco Strategy, Ontario is taking the second step in its commitment to bring tobacco tax rates up to the national average.

As of 12:01 a.m., May 19, 2004, tobacco tax rates in Ontario would be:

- 11.1¢ per cigarette, tobacco stick or gram of cut tobacco.

Legislative amendments will be introduced to provide the Minister of Finance with regulatory authority to prescribe future tobacco tax rates, and to set differential tobacco tax rates for certain tobacco products.

Improved Enforcement

Ontario's tobacco marketplace is being affected by unregulated contraband tobacco and unauthorized distribution activities. In order to minimize the availability of such tobacco, especially to youth, and to protect tobacco tax revenue, a number of initiatives will be proposed. These include:

- increasing the minimum level for court-imposed fines to $500 or $1,000, depending on the offence; and
- increasing offences and penalties for individuals distributing tobacco without authorization, including increased sanctions for repeat offenders.

Revenue from Spirits, Wine and Beer

The following changes will be effective June 21, 2004.

- The volume levy applied to each litre of spirits will increase by 25 cents. The new volume levy for spirits will be 54 cents per litre.
- The volume levy applied to each litre of wine coolers and spirit coolers will increase by 9 cents. The new volume levy for wine coolers and spirit coolers will be 28 cents per litre.
- The wine levy will increase by 12 cents per litre. The new wine levy will be $1.62 per litre.
- The brewers' basic fee will increase by 4.5 cents per litre.
    - The new brewers' basic fee for beer shipped in containers with a capacity of less than 18 litres (regular beer) will be 55.55 cents per litre.
    - The new brewers' basic fee for beer shipped in containers with a capacity equal to or greater than 18 litres (draught) will be 40.55 cents per litre.

While the definition of a microbrewery is unchanged, the new brewers' basic fee rates for a microbrewery will change according to the following schedule:

- 5.56 cents per litre for regular beer and 4.06 cents per litre for draught on the first 15,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 13.89 cents per litre for regular beer and 10.14 cents per litre for draught on the next 15,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 27.78 cents per litre for regular beer and 20.28 cents per litre for draught on the next 20,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 41.66 cents per litre for regular beer and 30.41 cents per litre for draught on the next 25,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 50.00 cents per litre for regular beer and 36.50 cents per litre for draught on the next 75,000 hectolitres, up to 150,000 hectolitres of beer shipped in Ontario on or after June 21, 2004; and
- 55.55 cents per litre for regular beer and 40.55 cents per litre for draught when over 150,000 hectolitres of beer is shipped in Ontario on or after June 21, 2004.

The brewers' basic fee applicable to brew pubs will change in accordance with the above changes. The new brewers' basic fee component will be 4.06 cents per litre. The new rates for holders of a Brew Pub endorsement are:

- 6.70 cents per litre for beer sold at the location where it is manufactured; and
- 24.30 cents per litre for beer sold at other authorized locations.

Support for Ontario's Wine Strategy and the Ontario Small Brewers' Association Strategy

To assist the domestic wine and microbrewery sectors in their development and to help these sectors fulfil the goals of their respective strategic plans, the Province will commit marketing support of $2 million annually for a five-year term to the Ontario Wine Strategy and $1 million annually for a five-year term to the Ontario Small Brewers' Association Strategy. This funding will be available commencing January 1, 2005.

Driver's Licence Fee

Effective September 1, 2004, the driver's licence fee will be increased from $50 to $75 per five-year period. The portion of the driver's licence fee earmarked to the Motor Vehicle Accident Claims Fund will rise from $5 to $15 per five-year period.

Other Fees and Charges

In the public consultations undertaken by the government, Ontarians repeatedly expressed their desire to see those individuals and businesses that benefit from a government service pay a greater share of the cost of providing the service, rather than having the taxpayer subsidize a portion of the costs. As part of the Budgeting for Results process that the government is beginning to implement this year, ministries brought forward proposals that more closely link the cost of providing a service and the associated benefits received by the individual or business to the fee or charge.

The table below lists the major changes to fees and charges that the government will be implementing later this year or early next year.

MAJOR COST-RECOVERY FEES AND CHARGES

Fees or Charges	Change (From/To)	Revenue Increase ($ Millions) 2004-05	Revenue Increase ($ Millions) Mature
▸ Increased Cost-Recovery from Workplace Safety and Insurance Board for the Expansion of Occupational Health and Safety Program	84% to 100% Cost-Recovery	18	37
▸ Civil Court Fee*—Fees to File Various Civil Court Claims including:		3	6
a. Issuing Statement of Claim	$157 to $181		
b. Filing a Statement of Defence	$125 to $144		
▸ Reinstate Suspended Driver's Licence	$100 to $150	1	5
▸ Small Claims Court Fees* including:		2	5
a. Issuing a Summons to Witness	$10 to $19		
b. Filing a Defence	$25 to $40		
▸ Rental of Hydro Lands—Charges for the Use of Hydro Transmission Corridor Lands	Greater Cost-Recovery	3	4

* The Ministry of the Attorney General is considering options for the waiver of court fees for financially disadvantaged litigants.

While the additional revenue generated from these changes in fees and charges is small relative to the overall size of the Provincial budget, it does reflect Ontarians' desire to see the government proceed with a user-pay approach to many of the services it provides. Further details of the major fee changes outlined above, as well as other smaller fee changes, will be provided by the individual ministries responsible, once arrangements and details are finalized.

Technical Measures

Corporations Tax Act

Amendments are proposed to the definition of "current accounts payable" for capital tax purposes. These amendments respond to the court decision in *QEW 427 Dodge Chrysler (1991) Inc.*, which held that current accounts payable include amounts owed to creditors and not just suppliers.

- Effective for taxation years ending after May 18, 2004, the definition of current accounts payable would be amended to confirm that it applies only to amounts payable to a supplier for purchases of goods and services.
- The proposed amendments would also clarify that liabilities incurred in connection with the purchase or trading of shares, bonds or other securities are not considered current accounts payable, effective for taxation years ending after May 19, 1993.

Employer Health Tax Act

Changing the Instalment Base to Coincide with the Liability Base

Currently, employers are expected to remit Employer Health Tax (EHT) instalments on the 15th day of each month, using an estimate based on the prior month's payroll. To simplify the process of remitting instalments, payments will be based on the actual payroll for each month and will be due on the 15th day of the following month.

This proposed new system will also simplify the preparation of the annual EHT return, by virtually eliminating any overpayments or underpayments of tax during the year, because both the instalment and liability will be based on the same payroll stream.

This initiative will be effective January 1, 2005. In order to change to the new system, employers will not be required to remit an instalment in January 2005. Instead, their first instalment will be due on February 15, 2005, based on remuneration for January 2005.

Permanent Establishments

Ontario's EHT is payable by all employers, including private companies, schools, hospitals, not-for-profit organizations, municipalities, the Government of Ontario and the Government of Canada.

On April 27, 2004, the Ontario Superior Court of Justice ruled that Ontario-based professional sports teams should not have to pay EHT with respect to salaries paid to players and others for games played outside Ontario.

For greater certainty, it is proposed that the existing EHT legislation be amended to clarify that as long as a person reports to work at a permanent establishment in Ontario, all of that employee's remuneration is subject to EHT. The April 27, 2004 judgment will be appealed.

This measure would be retroactive to January 1, 1990.

Taxable Benefits

Employer Health Tax is calculated based on remuneration paid to employees. Remuneration includes all payments, benefits and allowances received or deemed to be received by an individual that are, by reason of section 5, 6 or 7 of the *Income Tax Act* (Canada), required to be included in the income of the individual for federal income tax purposes. Since the inception of the EHT, any amount that is subject to income tax under the above sections of the *Income Tax Act* (Canada) is remuneration for EHT purposes.

In order to preserve the integrity of the EHT base, legislation will be proposed to clarify that amounts included in an employee's income by reason of section 5, 6 or 7 of the *Income Tax Act* (Canada) continue to be taxable for EHT purposes. These amounts would include automobile benefits, low-interest employee loans, and employee group term life insurance.

This measure would be retroactive to January 1, 1990.

Increasing Employer Health Tax Late-Filing Penalties

Amendments to the *Employer Health Tax Act* would be proposed to increase penalties levied for late-filed returns to be consistent with those levied under the *Corporations Tax Act* as a means to improve compliance. Where tax is owing, late-filing penalties would be imposed of up to 17 per cent of the tax owing, escalating to 50 per cent for repeat late-filers. This measure would be effective for taxation years ending after May 18, 2004.

Electricity Act, 1998

To improve the policy and administrative effectiveness of the transfer tax and payments in lieu of corporate taxes, amendments to the *Electricity Act, 1998* (the Act) are proposed:

- The Act would be amended to confirm that holding companies that acquire, hold, dispose of or otherwise deal with shares of a corporation established pursuant to section 142 of the Act are considered municipal electricity utilities. The proposed amendments would apply to:
  - a holding company established by one or more municipalities after November 6, 1998 and before May 2, 2003; and
  - a holding company established by a municipality after May 1, 2003 under the *Municipal Act, 2001*.

- Currently, any underpayment or non-payment of transfer tax voids a sale of electricity assets. It is proposed that the Minister of Finance be given authority to prescribe exceptions to this rule upon payment of the tax and any interest and penalties—for example, where transfer tax is paid in good faith but an underpayment arises from an assessment.
- Transfer tax was intended as a one-time tax on the transfer of electricity assets. However, when a taxpayer reinvests the after-tax proceeds of a transfer in other electricity assets and those other assets are also transferred, transfer tax may be levied on the second transfer. The effect is a "cascading" of transfer tax on the reinvested proceeds. It is proposed that the Minister of Finance be authorized to set rules to relieve this "cascading" of transfer tax.
- Transfer tax payable can be reduced by federal capital gains tax incurred on a transfer of electricity assets. This Budget proposes to extend the transfer tax offset to include federal tax payable on gains arising from the transfer of eligible capital property. This amendment would be effective November 7, 1998.

Highway Traffic Act

Amendments to the *Highway Traffic Act* will be proposed to clarify that simple interest, rather than compound interest, is to be charged on assessments of fees and taxes owed to Ontario and other jurisdictions by registrants in the International Registration Plan (IRP). Registrants would be required to retain records relating to IRP registration for a minimum of five years.

Income Tax Act

To redress the calculation of the Ontario Tax Reduction so the benefit goes only to those who need it most, the government proposes to amend the *Income Tax Act* so that individuals must calculate the tax reduction before claiming foreign tax credits. The amendment would be effective as of the 2004 tax year.

The tax rate for Qualifying Environmental Trusts would be increased to 14 per cent. This proposed amendment is consequential to the amendment to corporate tax rates approved in the *Fiscal Responsibility Act, 2003*. The new rate would be effective as of January 1, 2004.

Land Transfer Tax Act

It is proposed that the *Land Transfer Tax Act* be amended to enhance land transfer tax collection procedures for electronic registrations, including setting out collector obligations similar to those found in other statutes.

Retail Sales Tax Act

Transfer of Assets Between Related Corporations and Partnerships Rules

Proposals to modernize the retail sales tax rules relating to exempt transfers of assets between related corporations have been developed. In addition, rules for the transfer of assets between partnerships and their principals would be regulated and would be made consistent with the rules for related corporations. A draft regulation setting out the proposed rules will be posted on the Ministry of Finance's Web site for industry comment with the view to finalizing the proposals in the fall of 2004. The proposed effective date would be the release date of the draft regulations.

Property Tax

Stability, Flexibility and Fairness Measures

In recent months, the government has received extensive input from municipalities and taxpayers on ways to improve the stability, fairness, flexibility and simplicity of the property tax system. This consultative process has led to the development of the initiatives outlined below that would be implemented starting in the 2005 taxation year.

Assessment Cycle

Since the province-wide implementation of current value assessment (CVA) in 1998, there have been four reassessments:

- 1998 reassessment based on property values as of June 30, 1996;
- 2001 reassessment based on property values as of June 30, 1999;
- 2003 reassessment based on property values as of June 30, 2001; and
- 2004 reassessment based on property values as of June 30, 2003.

The 2004 reassessment marked the first year of the mature assessment cycle that was intended to be applied to all successive taxation years, with annual reassessments being conducted based on property values as of June 30 of the preceding year. However, after its first year of implementation, the parties involved in the assessment process have indicated that this cycle does not provide sufficient time. Specifically:

- the current cycle does not provide sufficient time for the Municipal Property Assessment Corporation (MPAC) to prepare accurate assessments for the more than 4.3 million properties in Ontario;
- the current cycle does not provide taxpayers with sufficient opportunity to review their new assessed values and have errors corrected before the roll is finalized, resulting in an increased need to file appeals; and
- the current cycle does not enable municipalities to conduct impact analysis and tax policy deliberations in a timely fashion prior to the finalization of budgets and tax rates for the year.

To address all of these challenges, the government intends to introduce legislation to alter the timelines of the assessment cycle.

Under the proposed new cycle, which would be implemented for the 2006 taxation year, reassessments would be based on property values as of January 1 of the year preceding the taxation year—six months earlier than the current valuation date of June 30. For example, for the 2006 taxation year, assessments would be based on property values as of January 1, 2005.

To facilitate the transition from the current June 30 cycle to the proposed new January 1 cycle, the government proposes to cancel the reassessment that would have been conducted for the 2005 taxation year. Property assessments for the 2005 taxation year would be based on the same valuation date as the 2004 assessments—that is, June 30, 2003.

For future years, reassessments would be conducted annually.

Assessment Averaging

The property tax reform legislation that was enacted in 1997 included a plan for assessments to be based on averaged property values starting in the 2005 taxation year. Specifically:

- in 2005, the taxes on each property would be based on an average of the current values of the property from two years (2004 and 2005); and
- in 2006 and future years, the taxes on each property would be based on an average of the current values from three successive years (current year plus the two preceding years).

During recent consultations, the government received advice from stakeholders to defer or cancel the implementation of assessment averaging. It is widely felt that assessment averaging would add complexity to the property tax system, would not enhance fairness for taxpayers, and would be redundant with existing property tax mitigation tools.

In consideration of the challenges that would be posed by the implementation of averaging in 2005, the government intends to introduce legislation to defer the implementation of assessment averaging.

The government plans to proceed with analysis and consultation on alternative assessment stabilization measures for residential and business properties for 2006 and future reassessment years. Research will focus on developing tools that:

- address taxpayer concerns with assessment volatility for individual properties;
- ensure fairness for all property owners, both those experiencing increases and those experiencing decreases; and
- are administratively feasible for municipalities and MPAC.

Cap on Tax Increases Related to Reassessments

When current value assessment (CVA) was implemented on a province-wide basis in 1998, a mandatory tax-capping program was also introduced to provide for a gradual phase-in of the impacts of CVA for commercial, industrial and multi-residential properties.

Under this capping program, municipalities are required to limit the annual assessment-related tax increases on these properties to five per cent of the previous year's taxes. (Municipal tax increases are permitted on top of this five per cent where budgetary levy increases are applied.)

In order to recoup the revenue that is lost from limiting taxes on properties facing increases, municipalities may limit or "claw back" the decreases of properties whose taxes are declining under CVA.

Municipalities and taxpayers have identified several concerns with the capping program, including the embedded historical tax inequities, the very slow rate of progress towards CVA, and the complexity of the system that leads to a lack of transparency for property owners and administrative costs for municipalities. The preferential treatment applied to newly constructed properties is seen as exacerbating these issues.

To address these concerns, the government intends to introduce legislation to provide municipalities with a range of options to modify the tax-capping program in order to increase progress towards CVA. Under these proposed options, which would be available for 2005 and future taxation years:

- municipalities could increase the amount of the annual cap from 5 per cent to up to 10 per cent of previous year's taxes;
- municipalities could implement a minimum annual increase for capped properties of up to 5 per cent of CVA-level taxes;
- municipalities could move capped or clawed-back properties directly to their CVA taxes if they are within $250 of their CVA taxes;
- municipalities could phase out the "new construction treatment" by creating floors establishing a minimum percentage of CVA tax responsibility, such that eligible properties would be taxed at:
  - up to 70 per cent of CVA-level taxes in 2005;
  - up to 80 per cent of CVA-level taxes in 2006;
  - up to 90 per cent of CVA-level taxes in 2007; and
  - up to 100 per cent of CVA-level taxes in 2008 and future years.

These proposed enhancements to the capping program would facilitate the transition to CVA while still maintaining a manageable pace of change for property owners. Leaving the decision as a municipal option would allow local governments to respond to local conditions.

The government will continue to analyse progress under the capping program and consult on the development of additional assessment stabilization measures that could be introduced as business properties complete the transition to CVA.

Small Business

Discussions have also been held with stakeholders about further flexibility to address the needs of small businesses in their communities.

Currently, municipalities have two options available to target tax reductions to smaller and lower-valued properties:

- graduated tax rates can be applied across the entire commercial and/or industrial property classes to apply lower tax rates to the lower portion of properties' assessments; and
- optional property classes can be used to adjust the tax burden of specific types of properties within the commercial and industrial classes.

The government intends to introduce legislation to enhance these mechanisms by giving municipalities the option to combine these measures and apply graduated tax rates at the optional property class level.

The government will continue to consult with representatives from the municipal and business sectors to discuss further options for targeting tax reductions to small business properties.

Fostering Environmental Stewardship and Rehabilitation

Conservation Land

In 1998, a property tax exemption program was created for conservation land to recognize, encourage and support the long-term stewardship of ecologically sensitive lands. This tax exemption is currently available to the following categories of lands:

- land identified by the Minister of Natural Resources as *provincially significant wetland*;
- land identified by the Minister of Natural Resources as a *provincially significant area of natural and scientific interest*;
- land identified by the Minister of Natural Resources as a *habitat of endangered species*; and
- land designated as an escarpment natural area in the *Niagara Escarpment Plan* under the *Niagara Escarpment Planning and Development Act*.

While these categories are comprehensive, they do not fully reflect the broad range and diversity of environmentally significant lands, waterways and habitats in Ontario. As a result, the government intends to enhance the eligibility criteria for the conservation land property tax exemption program for lands with natural and environmental significance owned by conservation authorities and conservation land trusts.

These changes will be implemented through regulation for the 2005 taxation year, following consultation with stakeholders about appropriate definitions of eligible properties and administrative procedures for determining eligibility.

The inclusion of additional categories of land in this program will increase the ability of Ontario's conservation authorities and conservation land trusts to preserve lands with natural and environmental significance in a manner that is more reflective of regional conservation objectives and the priorities of local communities.

Brownfields

The clean-up of brownfield sites is important as an alternative to the development of greenfields and to make efficient use of existing infrastructure. Following proclamation, a new financing tool will be available to help municipalities provide financial support for the clean-up of brownfield sites. The new financing tool will allow municipalities to freeze or cancel the municipal property taxes on eligible properties and the Minister of Finance may match the municipal treatment for the education portion of the property tax.

Provincial Land Tax

To provide more fairness in the property tax system in northern areas, the government intends to move forward on updating the provincial land tax (PLT). In 2004-05, the Ministry of Finance will consult with northern communities to determine the best way to implement improvements to the PLT.

Tax Expenditures

Tax expenditures require regular review because they are a form of spending through the tax system. Regular reviews are an important part of achieving the government's goal of fiscal transparency and accountability. Ontarians want a responsible approach to public policy and they want evidence of sound fiscal and financial management.

The government has completed the first step of its review of Ontario's tax expenditures. Several tax expenditures were assessed to determine whether they are meeting their objectives effectively and whether they are consistent with current priorities. Some were found to be ineffective or had very low take-up. Some may be delivered more effectively through other programs. Others simply do not measure up to current priorities.

The government is proposing to modify or eliminate several tax expenditures.

Transforming Existing Tax Expenditures

Retail Sales Tax (RST) Rebate for Vehicles Purchased to Transport Persons with Permanent Physical Disabilities

The current RST rebate for vehicles purchased to transport persons with permanent physical disabilities is providing assistance based more on the ability to purchase vehicles than the need for mobility assistance.

As a more effective way of delivering assistance to persons with physical disabilities, increased funding will be provided for the Home and Vehicle Modification Program (HVMP) funded through the Ministry of Community and Social Services.

Effective May 19, 2004, Ontario would no longer provide a rebate of RST paid on motor vehicles to transport persons with permanent physical disabilities. Rebates would remain available to qualifying purchasers for vehicles purchased before May 19, 2004, provided delivery occurs on or before July 31, 2004. Rebates would also continue to be available for vehicles acquired through long-term lease contracts entered into before May 19, 2004, provided delivery of the vehicle occurs on or before July 31, 2004.

Funding of the HVMP will be increased by $10 million per year. This will exceed the $8 million estimated annual savings provided by cancelling the rebate program.

The current RST exemption for equipment designed solely for the use of people who are chronic invalids or have a physical disability will be maintained. This exempts equipment such as hand controls designed to assist drivers who have a physical disability, or equipment such as wheelchair lifts, ramps and tie-downs installed in a vehicle to accommodate a wheelchair.

Eliminating Tax Expenditures

Workplace Accessibility Tax Incentive, Workplace Child Care Tax Incentive and Graduate Transitions Tax Credit

- These tax incentives would expire for eligible expenditures made after December 31, 2004.
- An expenditure is currently eligible for the Graduate Transitions Tax Credit only if the employment is for a minimum of six consecutive months. Therefore, employment commencing after July 5, 2004 would not qualify for the tax credit.

Educational Technology Tax Incentive

- Donations, sales or licences after December 31, 2004 would no longer qualify for this incentive. For licences granted before January 1, 2005, no amount would be deductible with respect to the licence after December 31, 2004.

Ontario Home Ownership Savings Plan

- The government proposes that no new plans be registered and no new contributions to existing plans be eligible for the program after May 18, 2004.
- Existing plans would continue to be available for home purchases until the end of 2005.
- Withdrawal of funds from existing plans after 2005 would not be subject to recovery of tax credits or penalties.

Ontario Research Employee Stock Option Credit

- Individuals would no longer be able to claim a tax credit after the end of the 2004 tax year on stock option benefits or capital gains arising from eligible options.

Employer Health Tax Exemption for Stock Option Benefits Paid to Employees of Research-Intensive Companies

- As of May 18, 2004, all stock option benefits would be subject to EHT.

Tax Incentives for Electricity Supply and Conservation

Over the past several months, the government has taken a number of steps to ensure that Ontario will have an adequate and reliable supply of electricity. This includes the plan proposed by the Minister of Energy on April 15, 2004 to encourage the development of new electricity supply by the private sector and to promote the conservation of electricity.

As a result of these actions, the government intends to cancel the following tax incentives for electricity supply and conservation that have not been fully implemented:

- Legislation will be introduced to repeal the 10-year corporate income tax holiday and the 10-year property tax holiday effective November 26, 2002.
- The government will not proceed with implementing the corporate income tax deduction for self-generation announced in the 2003 Ontario Budget and the immediate 100 per cent corporate income tax write-off for electrical energy-efficient equipment announced in November 2002.

Reviewing New Tax Expenditures

Tax expenditures can be an effective way to meet policy objectives. However, a new approach to tax expenditures is needed. The government proposes that, in general, any new tax expenditures be time-limited to ensure a review of their effectiveness. Stakeholders and the intended beneficiaries of those expenditures should be a crucial part of that review.

Other Technical Amendments

To improve administrative effectiveness and enforcement, maintain the integrity and the equity of the tax system, and enhance legislative clarity, various other amendments will be proposed to the following Ontario statutes:

- *Assessment Act*
- *Automobile Insurance Rate Stabilization Act, 2003*
- *Business Corporations Act*
- *Corporations Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Family Law Act*
- *Financial Administration Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Highway Traffic Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Ministry of Revenue Act*
- *Municipal Act, 2001*
- *Municipal Property Assessment Corporation Act, 1997*
- *Ontario Home Ownership Savings Plan Act*
- *Provincial Land Tax Act*
- *Registered Insurance Brokers Act*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

Part 3: Tax Collection Agreement

Since 1962, Ontario has authorized the federal government to collect and administer provincial income tax through a tax collection agreement.

While the agreement was modified several times since it was signed, both parties identified a need to update it to reflect current practices, modern technology and the evolving nature of the federal-provincial partnership.

That need became compelling in 2000 when Ontario and many other provinces changed the way they calculated their personal income tax. Instead of expressing provincial income tax as a single percentage of federal income tax, provinces began applying their tax rates directly to taxable income.

Since October 2003, significant progress has been made with the federal government to resolve outstanding issues. The federal government has proven to be a reasonable, solutions-oriented partner. The Government of Ontario acknowledges and appreciates the federal government's co-operation in this process.

The Province is now ready to sign a refreshed agreement with the federal government for the collection and administration of Ontario's personal income tax. The new agreement:

- provides significant policy flexibility to respond to the particular needs of Ontario taxpayers;
- contains clear guidelines that the federal government will apply when deciding to administer provincial tax measures;
- responds to recommendations made by the Provincial Auditor, over the last several years, for improvements in the timing of payments and sharing of information; and
- provides greater assurance that our single largest revenue source is being calculated correctly and paid to the Province on a timely basis.

To keep the new agreement consistent with current needs, it will be the subject of a mandatory review every six years.

Part 4: Access to Capital

Ontario offers venture capital support through tax measures and its securities regulation regime. The government plans to further improve the climate for venture capital investment by working with the federal government. In its 2004 Budget, the federal government committed to new investments in the venture capital market, to be implemented through the Business Development Bank. Ontario will approach the federal government to discuss measures that would maximize the potential of the federal program in Ontario.

Improving Access to Capital for New and Innovative Research Businesses

Ontario is committed to supporting venture capital investment for commercialization where a gap exists in the supply of venture capital. A gap often occurs in the earlier stages of high-risk technology businesses, particularly those resulting from research in universities and hospitals.

Ontario provides generous support to publicly funded research institutes for research and development (R&D). In order to reap the benefits of R&D, the government intends to encourage the investment of capital that would support the growth and development of entrepreneurial technology firms created by these institutes.

Framework for Ontario Commercialization Investment Funds (OCIFs)

As mentioned in Budget Paper B, *Ontario's Economy*, the government proposes the following framework to fund costs associated with bringing innovation to market.

Overview of the Program

- An OCIF would raise capital from institutional, corporate and accredited investors. The capital would be accessible to eligible publicly funded research institutes for the commercialization of intellectual property derived from scientific research.
- The minimum purchase required of each investor would be $25,000.
- A grant would be provided to the OCIF after it invests in seed-stage businesses whose primary asset is intellectual property.

Sponsors

- An OCIF must be sponsored by a research institute that qualifies under the Ontario Business-Research Institute Tax Credit.
- These institutions include universities, colleges of applied arts and technology, Centres of Excellence and hospital research institutes in Ontario.

- Each institute would only be able to sponsor one OCIF.

Governance

- Good governance would require visible and active involvement of the sponsors. The sponsors would be represented on the board of directors.
- Investors would also be represented on the board.

Eligible Investments

- Eligible investments would require a strong link to intellectual property of the sponsor. The intellectual property must be developed by the faculty, staff or students of a sponsor.
- An eligible investment must be risk-capital.
- At the time of initial investment, the investee business or prospective business must have less than $1 million in assets.
- The OCIF would be required to diversify its investments.

Eligible Businesses

- The business would not have established commercial operations and must need financing for research and product development.
- The business must be incorporated and operating in Ontario.

Determination and Delivery of the Grant

- The grant would be calculated as 30 per cent of eligible investments made in a year, to the extent that the investments are supported by new capital raised by the OCIF.
- The grant would be payable once a year upon receipt of an application from the OCIF.
- Labour Sponsored Investment Funds and Community Small Business Investment Funds would be precluded from investing in OCIFs.

Program Cap

- The grants would support up to $30 million of capital raised by OCIFs per year, if that capital is fully invested in eligible investments. This would represent potential maximum support of $9 million per year for the program.
- To implement the cap, there would be a restriction on the number of registrations of capitalized OCIFs per year and on the annual amount of grant that would be available to each OCIF.

Accountability

- To ensure a review of the program, registration of new OCIFs would be allowed until the end of 2006. No grants would be available after 2008.
- While the program is running, the government would work with OCIFs to assess the program's effectiveness.

Dividend and Redemption Restrictions

- An OCIF would be restricted from paying dividends or redeeming any shares within four years after the issuance of the shares by the OCIF.

Next Steps

Ontario will also encourage the participation of the federal government in the OCIF program to maximize the leverage potential of public investments.

The government will introduce legislation to create the OCIF program following consultations with the federal government and other interested parties.

Labour Sponsored Investment Funds

Labour Sponsored Investment Funds (LSIFs) are significant fundraisers and investors in Ontario's venture capital industry. In 2003, LSIFs invested over $220 million in Ontario businesses, representing 34 per cent of the total venture capital investment in the province. This capital is invested in new and emerging small and medium-sized businesses essential to Ontario's economy.

The LSIF program has been operating since 1991 and is now a mature feature of the tax system. As with all tax expenditures, it is important that the government review this program to ensure that it is still an appropriate vehicle for meeting the goal of increasing venture capital investment and that the Province and shareholders are receiving value for their investments. The Province will involve stakeholders in this review.

In the last several sales seasons, a number of newly registered LSIFs have failed to raise sufficient capital to be viable investment companies for the long term. LSIF capital is spread too thinly among too many LSIFs and many of the existing LSIFs are too small to be viable long-term investors.

- To ensure the stability and health of the venture capital pool available for Ontario businesses, the Province proposes a moratorium on new LSIF registrations effective May 18, 2004. Applications for registration received by May 18, 2004 will be processed. This would allow existing LSIFs to continue operations and raise capital while the Province works with the federal government and venture capital community to determine appropriate changes to the LSIF program.

A number of amendments will be proposed to the *Community Small Business Investment Funds Act* that would ensure that the LSIF program continues to operate effectively while the program is under review. These amendments are described in the following pages.

The calculation of investment requirements has created difficulties in two respects. First, the current rules regarding the treatment of realized gains and losses were created when the program was new and did not contemplate older LSIFs with long investment histories. Several LSIFs face increasing investment requirements even if they are capped and have no new capital to invest.

Second, the determination of investment requirements of an LSIF formed from the amalgamation of two LSIFs can result in an unfavourable outcome. This has created a disincentive to amalgamate LSIFs, and resulted in smaller and less successful LSIFs being unable to grow or leave the program through amalgamations.

To remedy these situations, the following changes are proposed:

- introduction of rules allowing the amalgamation of LSIFs through asset purchases; and
- an amendment of the investment requirements such that LSIFs must offset 70 per cent of realized losses deducted from investment requirements with a maximum of 70 per cent of realized gains.

LSIFs are limited in the amount of investment they can make in public companies. In order to ensure that smaller public companies can raise capital, the following changes are proposed:

- the restriction on LSIF investments in companies listed on a stock exchange would be relaxed so that an LSIF could invest up to 25 per cent of its investments in a year in listed companies; and
- to give LSIFs some certainty of their maximum investment limit. LSIFs would be able to determine this limit on the greater of either their current or previous years' investments.

Other technical amendments will be proposed as part of the government's ongoing evaluation of the *Community Small Business Investment Funds Act*. Minor amendments would:

- allow LSIFs to control investee companies;
- allow research-oriented investment funds more flexibility when determining their investment requirements by providing them with a choice of August 31 or December 31 as the date on which the requirement would be determined;
- change the calculation of the LSIF tax credit to conform to federal practice, giving investors greater certainty with respect to the amount of their tax credit;
- no longer permit LSIFs to count investments in holding companies against their investment requirements;

- clarify that investments that have been written off without having been disposed of would be deemed to be disposed of; and
- change various provisions to comply with administrative practice.

Part 5: Administrative Fairness and Effectiveness

Simplifying Tax Administration

Retail Sales Tax (RST) Purchase Exemption Certificates (PEC) Simplification

The government proposes to proceed with changes to the RST PEC system. The proposed changes will reduce red tape and compliance costs for vendors and taxpayers when claiming an exemption from RST on purchases. PECs would no longer require a signature, a list of exempt items or an expiry date. As well, farmers would be allowed to use farm association identification cards in lieu of PECs.

Waiver Provisions Under the *Fuel Tax Act, Gasoline Tax Act, Land Transfer Tax Act, Retail Sales Tax Act* and *Tobacco Tax Act*

Waivers allow taxpayers time to gather additional information to support their position without concern that an estimated assessment will be issued, and are an accepted practice in the administration of Ontario taxes. Legislative provisions exist under the *Corporations Tax Act* and *Employer Health Tax Act*. To ensure legislative consistency, amendments will be proposed to the *Fuel Tax Act, Gasoline Tax Act, Land Transfer Tax Act, Retail Sales Tax Act* and *Tobacco Tax Act* to codify the Minister of Finance's policy of accepting waivers from taxpayers in instances where the period for taxes owing is about to become statute-barred.

Ensuring Integrity of the Tax System

Dissolution of Corporate Charters for Unpaid Tax Debts

To ensure that tax debts have been paid or secured, amendments to the *Business Corporations Act* will be proposed to allow for the dissolution of the corporation and the withholding of clearance certificates for revivals, transfers of assets or dissolutions where tax debts are owed to the Minister of Finance under the *Employer Health Tax Act, Fuel Tax Act, Gasoline Tax Act, Land Transfer Tax Act, Retail Sales Tax Act* and *Tobacco Tax Act*.

Improving Tax Administration

Returns and Payments by Alternative Channels

In order to better accommodate the business needs of taxpayers, and realize the efficiencies of electronic and other alternative channels for taxpayers to file returns, make remittances and conduct business with the ministry, as well as for the ministry to make payments and refunds, amendments will be proposed to ensure that electronic services can be accommodated across all statutes. In addition, the Ministry of Finance will implement an automated online service system to expedite gasoline tax refunds to reserve gasoline retailers for tax-exempt sales to First Nations individuals.

Keeping Regulations Current

Loan and Trust Corporations Act

The government intends to introduce legislation to update the definition of "loan corporation" in the *Loan and Trust Corporations Act* (the Act). This proposal would keep provincial legislation current with changes in federal legislation by excluding from the definition of loan corporation in the Act a retail association, as defined in the federal *Cooperative Credit Associations Act*.

Trust Beneficiaries' Liability Act

In response to a request from the Chair of Management Board, the government will propose technical legislation to clarify that investors in publicly traded trusts will not be liable for the activities of the trust.

Part 6: Revenue Plan

				($ Millions)
2004 Budget Impact Summary	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Ontario Health Premium	1,635	2,350	2,470	2,600
Corporations Tax				
Plan to Eliminate the Capital Tax	(1)	(40)	(80)	(110)
Capital Cost Allowance Enhancements	(26)	(61)	(61)	(61)
Enhancing the OFTTC	(8)	(8)	(8)	(8)
Apprenticeship Training Tax Credit[10]	(80)	(95)	(95)	(95)
Personal Income Tax				
Enrich Property Tax Credit	(85)	(85)	(85)	(85)
Retail Sales Tax				
One-Year Exemption for DMF	(2)	(1)	0	0
Rebate for Clean Home Energy Systems	(3)	(3)	(3)	(3)
Extension of EnergyStar® Rebate[11]	(8)	0	0	0
Tobacco Tax	90	110	110	110
Revenue from Spirits, Wine and Beer	45	60	61	62
Driver's Licence Fee	3	9	14	19
Technical Measures	0	1	1	1
Property Tax				
Brownfields	(5)	(5)	(5)	(5)
Conservation Land Tax Exemption	(1)	(1)	(1)	(1)
Tax Expenditure Review				
End ORESO and EHT Exemption	13	15	15	15
End OHOSP	5	6	6	6
End Various CIT Incentives	1	1	1	1
Transform RST Rebate for Vehicles to Transport Persons with Physical Disabilities[12]	-	-	-	-
Administrative Fairness and Effectiveness (See Paper A)	70	240	465	465
Total Revenue Changes	1,643	2,493	2,805	2,911

Endnotes

1. Kirby, Michael J.L., *The Health of Canadians—The Federal Role, Volume 6: Recommendations for Reform*. Standing Senate Committee on Social Affairs, Science and Technology, 2002.

2. Ibid.

3. Ibid.

3a. Romanow, Roy J., *Building on Values—The Future of Health Care in Canada*. Commission on the Future of Health Care in Canada, 2002.

4. Address by Prime Minister Paul Martin to the Empire Club and the Canadian Club, April 16, 2004.

5. Conference Board of Canada, *Fiscal Prospects for the Federal and Provincial/Territorial Governments*, February 2004. The Conference Board's projections are based on maintaining the status quo with respect to tax rates and program spending.

6. Romanow, Roy J. *Building on Values—The Future of Health Care in Canada*. Commission on the Future of Health Care in Canada, 2002.

7. Ontario Media Development Corporation, News Release, March 22, 2004.

8. Statistics Canada, *2003 Labour Force Survey*.

9. These are the only service trades eligible under the apprenticeship component of the CETC and, therefore, are the only service trades that would qualify for the ATTC.

10. The Apprenticeship Training Tax Credit is proposed to end for new hiring after December 31, 2007.

11. As announced on March 29, 2004, the RST rebate for certain EnergyStar®-rated appliances would be extended until July 31, 2004.

12. Funding of the Home and Vehicle Modification Program will be increased by $10 million per year. This will exceed the $8 million estimated annual savings provided by cancelling this rebate.

PAPER D

Report on Borrowing and Debt Management Initiatives

Highlights

Cost-effective borrowing and debt management activities minimize debt interest costs, freeing up resources for essential programs such as health care and education.

The 2004-05 long-term public borrowing requirements for the Province and Ontario Electricity Financial Corporation (OEFC) are projected at $23.8 billion, of which $3.5 billion has been completed. The medium-term outlook for long-term public borrowing is estimated at $23.9 billion in 2005-06, declining to $18.8 billion by 2007-08. The refinancing of maturing debt will remain the most significant component of the borrowing program over the next few years. Legislation will be proposed to provide the government with legal authority for new borrowing that exceeds these maturities.

For the 2003-04 year, the Province and OEFC borrowed $25.4 billion in long-term funds.

Long-Term Public Borrowing Program

Total long-term public borrowing requirements for the Province and OEFC in 2003-04 were $25.4 billion. This amount includes $14.9 billion of debt maturities and redemptions and $6.2 billion for the deficit, partially offset by adjustments for non-cash items and amortizations included in the deficit. OEFC's long-term public borrowing requirements were $5.5 billion.

Ontario's bond issues are well received by both retail and institutional investors worldwide. By far, Canadian investors comprise the largest investor base for Ontario, followed by investors in the United States. European and Asian investors also purchase Ontario bonds.

In 2003-04, $18.6 billion, or almost three-quarters, of the Province's total long-term public borrowing requirements were completed in the Canadian domestic market. The Province used a number of instruments to diversify its domestic borrowing program. For instance:

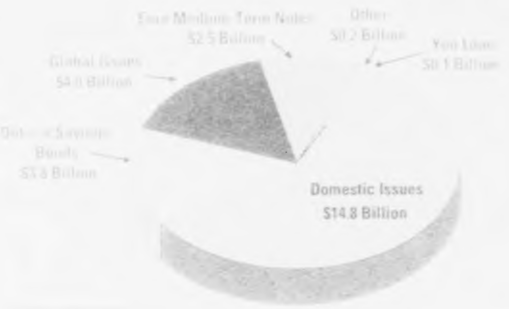
- $[illegible] billion was raised through 14 bond issues broadly targeted to domestic investors.
- $[illegible] billion of Floating Rate Notes were issued at cost-effective rates.
- [illegible] bond auctions were completed on behalf of OEFC. These bond auctions raised a total of $[illegible] billion at competitive rates.
- $500 million was raised through the issuance of the Province's first amortizing bond.
- A variety of bonds with different terms and structures were issued to meet specific investor preferences.

While the majority of the borrowing was completed in the domestic market, Ontario preserved its funding sources by issuing the equivalent of $6.6 billion of foreign currency re- [illegible] in the Canadian domestic market.

- The Province [illegible] global bond [illegible] U.S. dollar [illegible] bonds.
- Euro Medium-Term Notes in Canadian dollars, Australian dollars, Swiss francs and Japanese yen were issued, along with the Province's first Hong Kong dollar bond. Ontario also issued a yen loan.

2003-04 Long-Term Public Borrowing

$25.4 Billion in Long-Term Public Borrowing*



Long-Term Public Borrowing Program

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Ontario's bond issues are well received by both retail and institutional investors worldwide. By far, Canadian investors comprise the largest investor base for Ontario, followed by investors in the United States. European and Asian investors also purchase Ontario bonds.

In 2003-04, $18.7 billion, or almost three-quarters, of the Province's total long-term public borrowing requirements were completed in the Canadian domestic market. The Province used a number of instruments to diversify its domestic borrowing program. For instance:

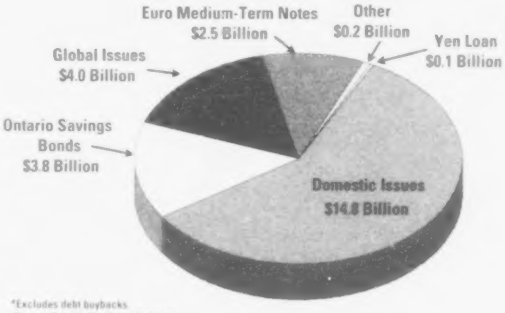
- $7.1 billion was raised through 14 bond issues broadly targeted to domestic investors.
- $4.5 billion in Floating Rate Notes were issued at cost-effective rates.
- Two bond auctions were completed on behalf of OEFC. These bond auctions raised a total of $1.0 billion at competitive rates.
- $900 million was raised through the issuance of the Province's first amortizing bond.
- A variety of bonds with different terms and structures were issued to meet specific investor preferences.

While the majority of the borrowing was completed in the domestic market, Ontario diversified its funding sources by raising the equivalent of $4.6 billion in foreign currencies, achieving costs below those available in the Canadian domestic markets:

- The Province launched its first global bond denominated in euros, and also issued three U.S. dollar global bonds.
- Euro Medium-Term Notes in Canadian dollars, Australian dollars, Swiss francs and Japanese yen were issued, along with the Province's first Hong Kong dollar bond. Ontario also issued a yen loan.

2003-04 Long-Term Public Borrowing

$25.4 Billion in Long-Term Public Borrowing*



*Excludes debt buybacks
Source: Ontario Financing Authority

Consolidated Provincial Borrowing Program

($ Billions)	2003-04			Plan 2004-05
	Fall Outlook*	Interim	Change	
Deficit/(Surplus)	5.6	6.2	0.6	2.2
Adjustments for:				
Non-Cash Items Included in Deficit	0.9	(1.3)	(2.2)	3.2
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	-	(0.8)
Acquisitions of Major Tangible Capital Assets	1.5	1.3	(0.2)	1.6
Debt Maturities	13.3	13.3	-	16.1
Debt Redemptions	1.1	1.6	0.5	1.0
Canada Pension Plan Borrowing	(0.2)	(0.1)	0.1	(1.1)
Increase/(Decrease) in Cash and Cash Equivalents	(2.0)	0.9	2.9	0.0
Decrease/(Increase) in Short-Term Borrowing	(0.3)	1.3	1.6	0.2
Other Uses/(Sources) of Cash	3.6	3.0	(0.6)	1.4
Total Long-Term Public Borrowing Requirement	**22.7**	**25.4**	**2.7**	**23.8**

* As presented in the 2003 Ontario Economic Outlook and Fiscal Review.

Note: Consistent with the treatment in the 2002-03 Public Accounts, the borrowing program of OEFC was consolidated with that of the Province.

In addition to the borrowing and redemptions shown in the table for 2003-04, the Province bought back $0.5 billion of previously issued debt, financing these purchases with similar amounts of debt issued at more favourable rates.

The Province's long-term public borrowing program for 2003-04 was $25.4 billion, $2.7 billion higher than the 2003 Ontario Economic Outlook and Fiscal Review estimate, as the Province locked in historically low long-term interest rates by increasing Cash and Cash Equivalents while decreasing Short-Term Borrowing. The $0.6 billion increase in the Deficit also increased the borrowing program. The program increase was partially offset by a decrease in Non-Cash Items Included in the Deficit.

Included in the $2.7 billion increase in the 2003-04 requirements is a $1.0 billion increase in long-term public borrowing requirements for OEFC, due to a decision to extend the term of some of OEFC's debt to lock in more attractive long-term financing.

Long-term public borrowing requirements for 2004-05 are forecast at $23.8 billion, a $1.6 billion decrease from 2003-04. So far in 2004-05, the Province has completed $3.5 billion in long-term public borrowing, leaving $20.3 billion remaining to be borrowed for the fiscal year.

Medium-Term Borrowing Outlook

Medium-Term Outlook: Consolidated Provincial Borrowing Program

($ Billions)	2004-05	2005-06	2006-07	2007-08
Deficit/(Surplus)	2.2	2.1	1.5	0.0
Estimated Adjustments for Non-Cash Items Included in Deficit	2.4	1.2	1.1	1.1
Acquisitions of Major Tangible Capital Assets	1.6	1.7	1.9	1.7
Debt Maturities				
Currently Outstanding	16.1	18.9	11.8	9.5
Incremental Impact of Future Refinancing	0.0	0.0	2.1	5.8
Subtotal	16.1	18.9	13.9	15.3
Debt Redemptions	1.0	1.0	1.0	1.0
Canada Pension Plan Borrowing	(1.1)	(1.2)	(0.4)	(0.4)
Decrease/(Increase) in Short-Term Borrowing	0.2	0.0	0.0	0.0
Other Uses/(Sources) of Funds	1.4	0.2	0.0	0.1
Estimated Long-Term Public Borrowing Requirement	**23.8**	**23.9**	**19.0**	**18.8**

While the Province expects to borrow as a result of projected deficits in the medium term, the most significant component of the borrowing program will be to refinance maturing debt. Debt maturities for the Province and OEFC are estimated at $16.1 billion in 2004-05, $18.9 billion in 2005-06, $13.9 billion in 2006-07 and $15.3 billion in 2007-08.

Cost-effective borrowing and prudent debt management strategies will continue to be key objectives. These objectives are designed to mitigate the risks associated with accessing the capital markets and to minimize the potential fiscal impact of interest rate and foreign exchange fluctuations. In managing debt maturities, the Province will aim for a smooth maturity profile by taking advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

In addition, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets to seek out diversified borrowing opportunities that minimize debt servicing costs and support the government's fiscal plan.

Northern Ontario Grow Bonds

A Northern Ontario Grow Bonds pilot project would allow northern Ontario residents to invest in their communities. The proceeds of provincially guaranteed Northern Ontario Grow Bonds would be loaned to eligible small and medium-sized businesses in the north to strengthen and diversify the local economy.

Northern Ontario Grow Bonds are part of the government's plan to promote northern prosperity. Details of this plan can be found in Budget Paper B, *Ontario's Economy*.

Debt Management

The Province mitigates financial risks such as market and credit risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits. Financial instruments such as swaps and options are used to hedge the Province's and OEFC's exposure to foreign exchange, interest rate and credit risks.

The Province limits itself to a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As of March 31, 2004, foreign exchange exposure was 1.2 per cent of debt issued.

The Province has a maximum interest rate reset exposure limit of 25 per cent of debt issued for Provincial purposes. As of March 31, 2004, interest rate reset exposure was 11.4 per cent of debt issued.

When OEFC was established in 1999, its foreign exchange exposure was 14.5 per cent of its total debt. As of March 31, 2003, foreign exchange exposure was reduced to 6.3 per cent, and by March 31, 2004, this exposure was eliminated by taking advantage of a stronger Canadian dollar.

Floating rate exposure was 8.0 per cent of outstanding debt at March 31, 2004, within the OEFC's limit of 20 per cent.

The Province's credit risk exposures arising from capital market activities are managed by limiting transactions to highly rated counterparties and maintaining credit exposures within approved policy limits.

PAPER D Appendix: Consolidated Financial Tables

Table I (A): Net Debt and Accumulated Deficit

Table I (B): Debt Maturity Schedule

Table I (C): Medium-Term Outlook—Net Debt and Accumulated Deficit

Table I (D): Derivative Portfolio Notional Value

NET DEBT AND ACCUMULATED DEFICIT **TABLE I (A)**
Interim 2004 **($ Millions)**

	1999-2000	2000-01	2001-02	2002-03	Interim 2003-04	Plan 2004-05
Debt[1]						
Non-Public Debt						
Minister of Finance of Canada: Canada Pension Plan Investment Fund	13,117	12,709	11,944	10,746	10,233	10,233
Ontario Teachers' Pension Fund	12,252	11,535	11,043	10,387	9,487	8,666
Canada Mortgage and Housing Corporation	1,181	1,147	1,116	1,078	1,040	1,006
Public Service Pension Fund	3,535	3,446	3,331	3,200	3,052	2,886
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,679	1,637	1,582	1,570	1,450	1,371
Other[2]	716	657	581	356	1,081	1,063
	32,480	31,131	29,597	27,287	26,343	25,225
Publicly Held Debt						
Debentures and Bonds[3]	97,694	99,008	99,990	102,958	116,733	125,568
Treasury Bills	5,663	4,814	5,108	6,274	3,359	3,209
U.S. Commercial Paper[3]	1,133	959	1,566	1,515	1,134	1,134
Deposits with the Province of Ontario Savings Office (POSO)[4]	2,812	2,482	2,438	-	-	-
Other	458	447	447	438	745	1,611
	107,760	107,710	109,549	111,185	121,971	131,522
Total Debt	**140,240**	**138,841**	**139,146**	**138,472**	**148,314**	**156,747**
Cash and Temporary Investments	(6,884)	(6,319)	(5,773)	(7,252)	(8,417)	(8,417)
Other Net (Assets)/Liabilities[5]	1,042	(26)	(1,252)	1,427	(492)	(5,918)
Net Debt	**134,398**	**132,496**	**132,121**	**132,647**	**139,405**	**142,412**
Tangible Capital Assets[6]	-	-	-	(13,942)	(14,478)	(15,246)
Accumulated Deficit[7]	**134,398**	**132,496**	**132,121**	**118,705**	**124,927**	**127,166**

Source: Ontario Ministry of Finance.

(1) Includes debt issued by the Province and Government Organizations, including Ontario Electricity Financial Corporation and Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA)/Ontario Strategic Infrastructure Financing Authority (OSIFA).

(2) Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrants Investor Corporation and indirect debt of school boards (the indirect debt of school boards of $891 million was incurred in 2004 to refinance the non-permanently financed debt of 55 school boards. An equivalent amount is included in Net Assets as advance payments to school boards.)

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

(4) The Province completed the sale of POSO to Desjardins Credit Union effective March 31, 2003, with the POSO liabilities to the depositors assumed by the purchaser.

(5) Other Net (Assets)/Liabilities includes accounts receivable, loans receivable (including municipal loans by OMEIFA/OSIFA), advances and investments in Government business enterprises, accounts payable, accrued liabilities, pensions and the elimination of the liability for power purchase agreements with non-utility generators.

(6) Starting with fiscal year 2002-03, Tangible Capital Assets are capitalized and amortized over their estimated useful lives. In 2001-02 and prior years, the costs of Tangible Capital Assets were recognized as expenditures.

(7) Accumulated Deficit represents net debt adjusted for tangible capital assets.

DEBT MATURITY SCHEDULE **TABLE I (B)**
Interim 2004 **($ Millions)**

Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currencies[2]	Interim 2003-04 Total	2002-03 Total
Fiscal Year Payable							
2003-04							17,662
2004-05	15,884	2,539	614	310	536	19,883	14,449
2005-06	12,014	6,747	676	46	-	19,483	18,508
2006-07	9,257	2,437	460	-	-	12,154	7,909
2007-08	6,040	3,007	320	-	299	9,666	9,768
2008-09	14,399	3,790	-	795	207	19,191	-
1-5 years	57,594	18,520	2,070	1,151	1,042	80,377	68,296
6-10 years	23,644	3,291	938	2,749	483	31,105	36,732
11-15 years	1,655	-	63	-	-	1,718	2,022
16-20 years	10,181	-	-	-	-	10,181	7,376
21-25 years	14,368	-	-	-	-	14,368	12,057
26-50 years[3]	10,565	-	-	-	-	10,565	11,989
Total[4]	**118,007**	**21,811**	**3,071**	**3,900**	**1,525**	**148,314[5]**	**138,472**
Debt Issued for Provincial Purposes	94,952	17,621	3,071	3,900	1,218	120,762	112,340
OEFC Debt	23,055	4,190	-	-	307	27,552	26,132
Total[4]	**118,007**	**21,811**	**3,071**	**3,900**	**1,525**	**148,314[5]**	**138,472**

(1) Euro includes debt issued in legacy currencies i.e., Deutsche mark, French franc and Netherlands guilders.

(2) Other Currencies comprise Australian dollar, Norwegian kroner, New Zealand dollar, Pound sterling, Swiss franc and Hong Kong dollar.

(3) The longest term to maturity is to March 1, 2045.

(4) Total for all foreign currency denominated debt as at March 31, 2004 was $30.3 billion (2003, $28.4 billion). Of that, $27.5 billion or 90.8% (2003, $25.0 billion or 88.1%) was fully hedged to Canadian dollars.

(5) Total debt includes issues totalling $2.9 billion (2003, $3.4 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

MEDIUM-TERM OUTLOOK— **TABLE I (C)**
NET DEBT AND ACCUMULATED DEFICIT **($ Billions)**

	2005-06	2006-07	2007-08
Total Debt	163.8	171	177.2
Cash and Temporary Investments	(8.4)	(8.4)	(8.4)
Other Net (Assets)/Liabilities	(10.0)	(14.7)	(20.1)
Net Debt	145.4	147.9	148.7
Tangible Capital Assets	(16.2)	(17.2)	(18.0)
Accumulated Deficit	129.2	130.7	130.7

DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's and OEFC's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

The Province has sizable financing requirements, largely to refinance maturing indebtedness, which includes those of OEFC. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in several currencies other than Canadian dollars.

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

DERIVATIVE PORTFOLIO NOTIONAL VALUE **TABLE I (D)**
Interim 2004 **($ Millions)**

Maturity in Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09	6-10 Years	Over 10 Years	Interim 2003-04 Total	2002-03 Total
Swaps:									
Interest rate	4,814	12,890	5,374	7,090	10,106	11,370	3,419	55,063	49,043
Cross currency	6,437	8,255	3,165	2,934	3,986	6,041	-	30,818	28,699
Forward foreign exchange contracts	2,755	-	-	-	-	-	-	2,755	2,081
Futures	62	-	-	-	-	-	-	62	100
Options	40	-	-	-	-	-	-	40	-
Caps and floors	50	225	205	-	-	-	-	480	50
TOTAL	14,158	21,370	8,744	10,024	14,092	17,411	3,419	89,218	79,973

Definitions:

Notional value: represents the volume of outstanding contracts. It does not represent cash flows.

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Forward foreign exchange contract: an agreement between two parties to set exchange rates in advance.

Future: a contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

Option: a contract whereby the buyer has the right to buy/sell a designated instrument at a specified price within a specified period of time.

Cap: a contract that allows the purchaser to cap the contractual interest rate of a liability.

Floor: a contract that allows the purchaser to protect the total rate of return of an asset.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties.

PAPER E

A More Transparent and Accountable Budget

Introduction

"We are trapped in a cycle of deficit/cut/spend. I want to break that habit."
—Premier Dalton McGuinty

This paper outlines a vision for Budget reform in Ontario—one that is focused on making the Budget and its process more accountable to the citizens of Ontario. If government is to meet the priorities of Ontarians and realize the results they want to achieve, its planning and budgeting processes must change. This paper describes two complementary budget-reform initiatives: the proposed Fiscal Transparency and Accountability Act (FTAA) and a Budgeting for Results framework. In addition, this paper introduces an important new initiative that supports budget reform and will promote efficiency in the broader public sector—supply chain management.

Budgeting is not just about collecting revenues and spending money. It is an ongoing complex process involving people, interests and organizations from across the province that make competing and valid arguments for the use of public resources. As the culmination of this process, the Budget is a powerful instrument of change that can achieve both economic and social objectives. The way budgets are made—the way decisions are made and communicated—is a key determinant of government's accountability to its citizens. This accountability is important because Ontarians need to see that their money is being used wisely. Ontarians want a responsible approach to public policy and they want evidence of good fiscal and financial management. Ontarians need to know the true state of the Province's finances when they vote.

The box on the next page provides a brief overview of the system of traditional budgeting, planning and reporting processes. At its core, any system of budgeting exists to serve three main functions:[1]

- ensure overall fiscal sustainability;
- allocate resources according to government priorities; and
- promote efficient delivery of public services.

Like governments around the world, Ontario has, over the years, developed a budgeting process that offers certain strengths, but also serious weaknesses that this reform seeks to address. The initiatives outlined in this paper are designed to make budgeting in Ontario more effective in performing its core functions. The transformation of Ontario's budget process is comprehensive in changing the way planning is conducted and decisions are made and communicated. This will involve collaboration across the public sector in order to drive real, positive change while living within our means.

Overview of Planning and Budgeting in Ontario

Priority-Setting:

The government's priorities and commitments are the primary drivers of planning and budgeting. In Ontario, these have traditionally been articulated in election platforms, the Budget or the Speech from the Throne.

Planning:

Within the context of what is affordable, ministries plan strategies and activities to respond to the priorities and to maintain vital public services over the next several years. Ministries then take these plans forward to the government for approval.

Budgeting:

The approval process culminates in the tabling of the Budget, which also includes tax policy decisions. Detailed information about revenue and expenses is released in the Budget, usually for the upcoming fiscal year only.

Making Appropriations:

Detailed spending Estimates, based on the totals set out in the Budget, are presented to the members of the legislative assembly to seek legislative authority through a vote on the *Supply Act*.

Reporting and Auditing:

The fiscal position of the Province is disclosed in the Ontario Finances each quarter and an Economic Outlook and Fiscal Review roughly halfway through the fiscal year. Interim results for the year just ended are included in the next Budget.

Final numbers are reported in the Ontario Annual Report and Public Accounts, which can be thought of as ending the cycle for a particular year. The financial statements for the Province, which are audited by the Provincial Auditor, are presented along with detailed financial statements of ministries and significant Crown corporations, boards and commissions in the fall, following the end of the fiscal year.

Source: Ontario Ministry of Finance.[2]

This paper is organized in the following way:

- Section I. **Ensuring Fiscal Sustainability**, provides an overview of the proposed Fiscal Transparency and Accountability Act;
- Section II. **Beginning Budgeting for Results**, outlines how a new approach to planning, budgeting and reporting is being developed to effectively allocate resources to priorities; and
- Section III. **Promoting Efficiency**, announces a new initiative, supply chain management, that can change the delivery of key public services in Ontario.

Section I: Ensuring Fiscal Sustainability

In every government, decisions related to long-term fiscal sustainability often tend to compete with short-term considerations, a tension that can be compounded by an annual budget cycle and four-year electoral cycle. In addition, by their nature, all governments consist of many ministries responsible for spending and few responsible for controlling that spending. This creates a tendency to address public policy issues with more spending.[3] Combine these tendencies with the usual uncertainty about changes to future revenues and public-service demands, and it is easy to understand how sustainability can be a challenge.

In many jurisdictions, governments attempt to address these issues by legislating rules governing fiscal planning and reporting.[4] In 1999, Ontario adopted the *Balanced Budget Act* (BBA). The BBA requires the government to plan for an annual balanced budget. Failure to achieve a balanced budget results in a 25 per cent reduction in ministers' compensation in the first year, and 50 per cent in subsequent years in which the budget is not balanced. The BBA includes exceptions for extraordinary circumstances such as war or economic catastrophe and an exemption from sanctions for any new government in the first fiscal year they were elected.[5]

The BBA does not set standards for transparency in the development and presentation of budget documents. This is an important omission. Other governments, international institutions and public-finance academics have stressed the importance of transparency in ensuring accountability for sustainable fiscal policy.[6] This point was made by former Provincial Auditor Erik Peters in his October 2003 report on Ontario's finances. Mr. Peters' comments also raise the potential problem with rigid balanced-budget rules in limiting government flexibility, which has also been a focus of academic research.[7] This government believes that unbalanced budgets are not sustainable, but also understands that forcing balance at the expense of all other considerations is neither responsible nor consistent with long-term sustainability. Forcing balance, by indiscriminately cutting spending now, would require even greater spending in the future.

> *"I urge the new government to consider legislation dealing with fiscal responsibility. The objective would be to improve accountability through greater transparency in and quality of budgets and updates such as the quarterly Ontario Finances. This approach would be more effective in ensuring fiscal accountability than legislation that limits government's flexibility in responding to fiscal challenges."*
>
> *—Erik Peters, Former Provincial Auditor,*
> Report on the Review of the 2003-04 Fiscal Outlook, *October 29, 2003*

In order to increase accountability, this government is proposing a Fiscal Transparency and Accountability Act (FTAA) to replace the current BBA. If approved by the legislature, the proposed FTAA would have three main elements:

- It would provide a responsible and flexible framework for the conduct of fiscal policy.
- It would lay out clear and comprehensive transparency requirements for the Budget and related publications, consistent with international best practices.
- If a report is not released as required by the legislation, the Minister of Finance would table a statement of non-disclosure in the legislature and encourage debate.

This government will accept the BBA's salary sanctions for the 2004-05 fiscal year. In future years, salary sanctions would not apply.

Key Provisions of the Proposed Fiscal Transparency and Accountability Act

Fiscal Principles and Objectives:

- Guiding principles: responsibility, flexibility, equity and transparency.
- Maintain prudent debt-to-GDP ratio. Debt is defined as the accumulated deficit of the province.
- Plan for an annual balanced budget. If, in extraordinary circumstances, the government decides that a short-term deficit is necessary, it must release a sustainable recovery plan.

Transparency Mechanisms:

- Budget tabled in the legislature that includes:
  - a multi-year fiscal framework;
  - a comprehensive discussion of risks; and
  - information on priorities and results.
- Mid-Year Economic Outlook and Fiscal Review.
- Long-Term Report.
- Timing of Quarterly Finances and Economic Accounts.
- Pre-Election Report.

Sanctions:

- If a report is not released as required by the legislation, the Minister of Finance would table a statement of non-disclosure in the legislature and encourage debate.

The box above summarizes the various provisions of the proposed legislation. The proposed Act would provide a clear set of principles to guide fiscal policy: responsibility, flexibility, equity and transparency. A similar set of principles have been established in the United Kingdom (U.K.). See box below for details of the U.K.'s budget reform. Building on these principles, the proposed FTAA would then establish two clear fiscal objectives:

- **The government must maintain a prudent debt-to-GDP ratio.** While governments may run deficits, and in some cases need to, long-term debt sustainability is a real constraint on government activity.[8] It is important to establish this overarching objective to put shorter-term objectives into perspective. As in other jurisdictions, the meaning of prudent is left to the interpretation of the government of the day.[9] For the purposes of the proposed FTAA, debt would be defined as the accumulated deficit of the province.

- **The government shall plan for an annually balanced budget.** This remains a legitimate short-term objective for governments.[10] However, this objective would not constrain a government's flexibility if, in extraordinary circumstances, it determined that deficits were necessary. In such circumstances, the government would be required to indicate how it planned to return to balance and how the plan was still consistent with long-term sustainability.

United Kingdom

In 1997, a new government was faced with a large structural deficit, low net investment, rising public debt and falling public-sector net worth. In part, the causes of these problems were identified as a lack of transparent fiscal objectives and reporting mechanisms. This led to the creation of the *Code of Fiscal Stability, 1998* (integrated into the *Finance Act, 1998*), based on the principles of transparency, stability, responsibility, fairness and efficiency.

The Government has specified two rules to guide policy consistent with those principles:

- Golden Rule: Over the economic cycle, the government will borrow new funds only to invest and not to fund current spending.
- Sustainable Investment Rule: Public-sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

The Code requires specific documents and analyses:

- A Pre-Budget Report to encourage debate on the proposals under consideration for the budget.
- An Economic and Fiscal Strategy Report outlining the government's outlook for key fiscal aggregates for a period of not less than 10 years into the future, strategy for the future and discussion of intergenerational impact and sustainability of fiscal policy.

Source: HM Treasury.[11]

In terms of transparency mechanisms, FTAA would require a significantly higher quality of disclosure than at present. For the Budget, FTAA would require that it be tabled in the legislature. It would also require the Budget to present a multi-year perspective. The adoption of multi-year planning and reporting is an international best practice and has been a key component of budget reform in other jurisdictions.[12] In addition, the Budget would be required to present a comprehensive discussion of risks and information on non-financial performance or results. The 1995 and 2000 Ontario Financial Review Commissions (OFRC) both emphasized the need for these types of reforms.[13]

Summary of Key Ontario Financial Review Commission Recommendations for Government[13]

- Adopt a prudent planning framework that encourages cautious forecasting and better expenditure planning.
- Present a three-year business plan as part of the annual Budget that includes:
  - goals and priorities;
  - targets to measure progress;
  - changes from plans;
  - an outline of revenue; and
  - expenditures and economic projections for the upcoming year and following two years.
- Release the Budget before the start of the fiscal year.

The proposed Act would go further, specifying the timing and content of several key reports to establish a coherent cycle for reporting. A Mid-Year Economic Outlook and Fiscal Review would be required no later than 45 days after the end of the second quarter of the fiscal year to update information released in the Budget and provide a proper context for pre-Budget consultation. A Long-Term Report would be required to assess the long-term sustainability of fiscal policy given economic and demographic trends.[14] This is important as many public-policy issues, such as public infrastructure investment, the evolving nature of service delivery and sectoral change, are long term in duration. In addition, the release dates of quarterly Ontario Finances and Economic Accounts would be specified in the proposed legislation, enshrining a cycle for disclosure of the fiscal plan.[15]

The government will work towards tabling the Budget before the start of the fiscal year. Once the planning and reporting processes described in the next section have matured, the government would consider making the timing of the Budget part of the proposed FTAA.

Finally, the proposed Act would require the Ministry of Finance to prepare a Pre-Election Report. This report would be reviewed by the Provincial Auditor and released well before elections to ensure governments do not mislead the public on the state of the Province's finances.

Section II: Beginning Budgeting for Results

"We want to make sure that money is focused on the priorities we share and the results we need."

—Premier Dalton McGuinty

Ontarians face tough choices. This government is committed to informing those choices with clear and measurable results. Around the world, governments are moving towards developing and reporting on the results of public-sector activity.[16] This is motivated by the need to know what value is gained for money spent, rather than simply how much is spent. This shift in thinking is not easy for governments that must inevitably contend with wide and competing objectives. Amounts of money are easy to measure but, without any other information, understanding the meaning of those amounts is difficult. Without such an understanding, how can the public hold government accountable? The public needs to know the results of government activity.[17]

However, providing information on results is a complex task. This is because the relationship between cause and effect can be unclear. Results can be influenced by many variables. For example, how much of a change in the economy can be attributed to government activity? How much was actually caused by global economic trends? While government has a clear responsibility and ability to work towards better results, it cannot (nor should it try to) completely control all variables. Often, government acts primarily as a catalyst for change. There is a risk that information on results will be misinterpreted—and governments will be held accountable for things beyond their control.

A focus on results can also be complicated by a lack of clear, quantifiable measures of success and the information-management systems needed to track them. The next step, understanding how government activity is directed towards results, is complicated by the traditional incremental approach to budgeting, whereby the process focuses on what is new or changing rather than the entire budget.[18] Governments around the world have recognized these problems and have developed many tools to address them.[19] See the box on the next page for an overview of reform in Washington State and Australia.

Washington State

The government adopted a results-based budget process for the 2003-05 Biennial Budget as an alternative to across-the-board cuts. The steps of this process are the identification of priorities, allocation of resources among priorities and the development of strategies for each result.

Australia

In 1999, Australia introduced a budgeting and reporting framework to provide taxpayers with more information about the costs and performance of government. The framework requires government to place greater emphasis on results, including appropriations that are aligned with outcomes; budget submissions that are structured around outputs (price, quality, quantity); and criteria for designing performance measurement. Results are communicated in the government's annual report.

Sources: Washington State, OECD [19]

Each jurisdiction must develop an approach to suit its own processes. A new made-in-Ontario approach to planning and budgeting is being developed to address these issues. It will make government more accountable in three key ways:

- it will clearly set priorities and measurable outcome-based results;
- it will integrate those results into a planning process that looks at all government spending; and
- it will report regularly on progress.

Priority-Setting

Immediately after being elected, the government started working on its transformation agenda. It initially engaged the Ontario Public Service in an Ideas Campaign. This resulted in the submission of 11,000 ideas that are focused on improving the effectiveness and efficiency of services in Ontario.

Early in 2004, the government commissioned the Canadian Policy Research Networks to conduct a series of Citizens' Dialogues.[20] The government also conducted an unprecedented consultation process, Budget Town Hall 2004. The Minister of Finance visited 10 communities as part of 14 separate pre-Budget discussions.

These consultations aimed to strengthen, as the Budget was drawn up, the government's focus on the priorities and results desired by people in Ontario. As such, they provide the cornerstone for moving forward with budgeting for results.

It is through measuring results that the public can understand progress on priorities. Some initial examples include: success for students can be understood through higher literacy and math scores; healthier Ontarians is associated with reduced waiting times for key services; prosperity can be measured by higher educational achievement and the extent of job creation; strong communities can be measured through people's quality of life; and stronger democracy can be achieved through more people actively contributing to their communities.

As discussed below, the government is working towards a report on results to be released later this year.

Planning for Results

Once priorities are set, the next step is to tie planning to priorities. This happens when the desired results of government activities are set out and ways of measuring progress towards them are put in place. The results are, in essence, a way of measuring return on public investment in key priorities.

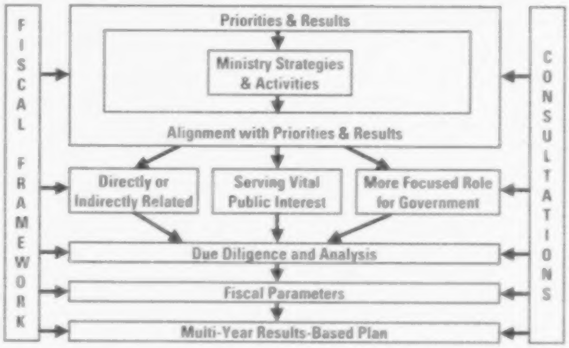
The government has laid the groundwork for a results-based approach to planning and budgeting. The new approach integrates the desired results of government activities into the planning and approval process. In so doing, it ensures that decisions about how to use resources are aligned with results and priorities.

Because it is critical to understand the impact of desired results related to each priority and to establish the right ways of measuring progress towards each result, planning for 2004-05 represented phase one of the new approach. It will be fine-tuned as decision-makers gather more information about existing programs and clarify desired results, as well as related measures and the best strategies to achieve them. This will be an iterative process expected to evolve over the next two budgets.

The fundamentals of the new approach, as illustrated in the adjacent figure, are:

- Consultations provide key input throughout this process.
- Given the priorities and results of the government and the fiscal framework, ministries review all of their strategies and activities.

Overview of Planning for Results


FISCAL FRAMEWORK
Priorities & Results
Ministry Strategies & Activities
Alignment with Priorities & Results
Directly or Indirectly Related
Serving Vital Public Interest
More Focused Role for Government
Due Diligence and Analysis
Fiscal Parameters
Multi-Year Results-Based Plan
CONSULTATIONS

- Those strategies and activities that clearly and directly support priorities are the focus of efforts to improve results. This may involve realigning government resources to make investments in these areas, where it can be shown that the investment will significantly improve specific desired results, including improved efficiency and effectiveness.
- For those strategies and activities that do not directly support priorities but do serve a vital public interest, the focus is on improving the efficiency and effectiveness of the activity.
- Activities identified as neither contributing to key results nor serving a vital public interest are subject to review for the purpose of refocusing resources.
- All strategies and activities then undergo due diligence. This includes analysing whether strategies will lead to the desired results, as well as assessing the risks and risk management approaches in the plan.
- As outlined earlier in this paper, the proposed FTAA would require the Budget to provide the overall limits within which ministries must plan. While some flexibility in dealing with fiscal challenges is always built in, the last step in the planning process is to confirm whether plans are consistent with the overall fiscal context.

The fiscal implications in the planning process are important. Government must develop the appropriate strategies when making new investments in priority areas, so that it can continue to live within its means. Balancing the books through across-the-board cuts, without considering priorities or the multi-year fiscal situation, is not appropriate.

Reporting Results

Later this year, the Premier will release the government's first report on results. It will show progress in developing measures for the results, targets for the measures and the plans for how they will be achieved. This will be an important milestone in the development of a more transparent approach to government reporting. This report will be released annually.

To ensure a link between the Premier's report and financial reporting, the proposed FTAA would require the government to integrate information on results into the Budget and the Mid-Year Economic Outlook and Fiscal Review. This integration is in line with recommendations of the Provincial Auditor, the Ontario Financial Review Commission, the Canadian Comprehensive Audit Foundation (CCAF),[21] and international best practices.

CCAF Performance Reporting Principles [21]

- focus on the few critical aspects of performance
- look forward as well as back
- explain key risk considerations
- explain key capacity considerations
- explain other factors critical to performance
- integrate financial and non-financial information
- provide comparative information
- present credible information, fairly interpreted
- disclose the basis for reporting

The way ahead

Budgeting for results provides a robust framework for ensuring the best use of public funds to meet public needs. With an emphasis on getting priorities right and deciding on the results people want in priority areas, budgeting for results is key in setting the course as the government develops and acts on its fiscal plans.

It is important to note that Budget documentation will also begin integrating better information on risk. The combination of improved information on resources, results and risks is essential for a more transparent and accountable Budget.

This approach will eventually better support relationships between public-sector partners, creating clear results that all organizations can work together to achieve.

Section III: Promoting Efficiency

All governments attempt to promote efficiency in the public sector. People want to see efficient financial management. One of the ways governments in several jurisdictions are attempting to significantly improve efficiency in the delivery of public-sector services is through the introduction of supply chain management (SCM) best practices.

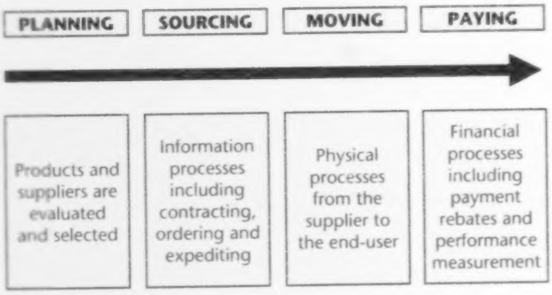
Citizens expect their public services to operate as an efficient, seamless and effective system. It is important that the government, along with its partners, ensure this is happening. If vital dollars are spent needlessly on back-office processes, fewer dollars are left to be spent on classrooms, hospital wards and lecture halls.

It makes sense, therefore, that if there are better ways for the public sector to plan, source, move and pay for goods and services, these should be examined and implemented.

Supply chain management is one such solution and refers to the array of processes that connect customers and suppliers. It is not merely about reducing the price of goods, but rather about taking greater advantage of improvements in how the public sector purchases and manages the flow of goods and services through an integrated structure. By implementing a rigorous and thorough SCM system in Ontario, hundreds of millions of dollars can be channelled back into key front-line public services.

The savings could be substantial. A 2001 Ontario Hospital Association Task Force study estimated the potential value of SCM improvements in the Ontario hospital sector at more than $300 million.[22] Some of those savings have been realized but more can, and needs to, be done.

Supply Chain Management Framework


PLANNING
SOURCING
MOVING
PAYING
Products and suppliers are evaluated and selected
Information processes including contracting, ordering and expediting
Physical processes from the supplier to the end-user
Financial processes including payment rebates and performance measurement

Adoption of SCM best practices by the private sector has saved billions of dollars while also improving quality and customer service. Public-sector jurisdictions around the world are also adopting SCM. One such example is the Voluntary Hospitals of America Inc. (VHA), a U.S. not-for-profit hospital co-operative with 2,200 members. VHA estimates its members saved $813.5 million US on purchases of $17.7 billion US in 2003.[23] In the U.K., the National Health Service (NHS) has also adopted SCM and made significant strides in customer satisfaction. Please see the box below for an overview of a key supply chain management initiative in the U.K.

U.K. National Health Service (NHS): Excellence in Supply Chain Management

The NHS in England spends £15 billion annually on purchased goods and services. It was determined that there was enormous potential for NHS organizations to save money through effective purchasing. As a result, the NHS Purchasing and Supply Agency (PASA) was established in 2000 as a significant part of the government's modernization of NHS procurement activities to act as a strategic adviser to the NHS on all supply issues. The primary goal of PASA is to improve the performance of the NHS purchasing and supply system and become the centre of expertise, knowledge and excellence in purchasing and supply matters of the NHS for the benefit of patients and the public.

Some of the achievements of PASA include:

- Achieved savings for the NHS totalling £580 million over the three-year period of April 2000-03.
- Implemented pilot supply "confederations" as recommended in the May 2002 policy document "*Modernising Supply in the NHS*" to develop a middle tier between national (PASA) and local (individual NHS trust) level purchasing.
- Produced an eCommerce strategy for the NHS through the development of an eProcurement toolkit, which provides a framework to help NHS trusts and confederations understand the benefits of eProcurement and plan its implementation in a structured way.
- Developed a national set of purchasing and supply performance management measures to better assess the performance of NHS trusts with respect to supply chain activities through benchmarking analysis and strategic assessment of trust and confederation spending.

Source: National Health Service, U.K.[24]

OntarioBuys Working Group

In Ontario, with a few notable exceptions, the SCM practices in the public sector are often inefficient, not coordinated, and inadequately supported. The solution to overcoming these obstacles is to build on the existing Ontario success stories, such as the Healthcare Materials Management Services in London, Ontario and the success with the Toronto-area school boards prior to amalgamation, and implement SCM best practices across the broader public sector.

To this end, the Government of Ontario is establishing the OntarioBuys Working Group, whose members will include sector expert-practitioners and representatives of institutions committed to best-practices implementation.

As part of phase one of this project, the Working Group will focus on implementing SCM in school boards, colleges, universities and hospitals. The Working Group will also examine linkages, where appropriate, to other sectors. The government will be asking the Working Group to discuss and make recommendations on the following:

- an appropriate structure serving broader public-sector organizations;
- a central entity that would provide co-ordination, benchmark sector performance against best practices and serve as a portal for shareable SCM information; and
- a best-practices implementation handbook, which will be a detailed "how-to" manual for Ontario-specific SCM implementation.

The Working Group will complete its work by December 2004. The government, in partnership with the broader public sector, will work quickly to implement supply chain management to realize improved efficiency and effectiveness. However, real change takes time and the work that starts now is needed to ensure that sound management remains the foundation of public-sector administration in Ontario.

Conclusion

Ontario is at a turning point. It faces a structural deficit and many urgent areas for public investment. The budget reform described in this paper will ensure that this province lives within its means while creating and improving public services for future generations. Ontarians will clearly see the results of public-sector investment. The combination of the proposed FTAA, Budgeting for Results and SCM represents an important step forward in the transformation of government. This transformation will not occur immediately. This is an ongoing process, but one the government is committed to seeing through.

The government will continue to pursue investments in programs that will improve customer service, increase efficiency and save money. Examples of transformation already underway include:

- **Job Connect**: More than 80 per cent of unemployed people using this service find a job or go on to further education and training.
- **Accessing Patients' Drug History**: Emergency rooms will have access to the drug history of over two million patients who are on the provincial drug plan. This will result in better care as patients will be diagnosed faster and given the proper prescriptions while helping to reduce trips to the emergency room for adverse drug reactions.
- **Ontario Student Assistance Program:** Online application and processing of student applications is now immediate rather than taking 10 weeks. More than 90 per cent of students apply and monitor the status of their OSAP applications online.
- **Electronic Patient Record**: Setting up phase one of an electronic patient record system, while protecting patient privacy, in southwestern Ontario, which will ultimately allow two academic health science centres to share electronic patient records between health care providers. This will improve the quality of patient care by reducing errors and decreasing repeated diagnostic testing. More efficient management of health records is estimated to save about $5 million a year.

These examples are but a glimpse of changes to come. Successful transformation will require the development of policies, appropriate measures and targets, supporting information systems and necessary staff training. For example, the Ministry of Finance will develop a ministry expense-limit policy consistent with the evolution of results-based planning.[25] This will provide a key link between the multi-year fiscal framework of the Province and multi-year funding for its partners in the broader public sector.

Government will capitalize on existing structures and maximize the knowledge and experience of Ontario's public servants. A cultural change management strategy will be developed and implemented to support success. It will require ongoing refinement. The ultimate result will be improved accountability, both to the citizens who depend on quality public services and the taxpayers who demand the most effective and efficient use of their funds.

Endnotes

1. Public-finance academics have emphasized these roles and the management reforms needed for more effective budgeting. The following provides an overview of the issues drawing from experiences in other jurisdictions.
   - Schick, Allen, "The Changing Role of the Central Budget Office," *OECD Journal on Budgeting—Governance*, Volume 1, number 1, 2001.
   - Premchand, A., *Public Expenditure Management*, International Monetary Fund, Washington, D.C., 1993.
   - Potter, Barry and Diamond, Jack, *Guidelines for Public Expenditure Management*, International Monetary Fund, July 1, 1999.

2. For further and more detailed information, see:
   - Office of the Provincial Controller, Fiscal and Financial Policy Division, *A Guide to Financial Management Policies and Practices in Ontario*, January 2004.

3. The following provide an overview of the potential biases in democratic systems and the reforms in Sweden that have attempted to address them.
   - Molander, Per, "Budgeting Procedures and Democratic Ideals," *Journal of Public Policy 2001* Volume 21, number 1, page 7.
   - Molander, Per, "Reforming Budgetary Institutions: Swedish Experiences," *Institutions, Politics and Fiscal Policy*, Volume 2, Strauch, Rolf R. and von Hagen J. (ed.), ZEI Studies in European Economics and Law, 2000.

4. Although these rules can be established without legislation, many jurisdictions have legislated them.
   - **British Columbia:**
     - *Balanced Budget and Ministerial Accountability Act* (2001)
     - *Budget Transparency and Accountability Act* (2000)
   - **U.K.:**
     - *Code for Fiscal Stability* (1998) required by the *Finance Act* (1998)
   - **New Zealand:**
     - *Fiscal Responsibility Act* (1994)
   - **Australia:**
     - *Charter of Budget Honesty Act* (1998)

5. The sanctions in the current BBA apply to the Premier and Members of the Cabinet (Executive Council) only.

6. There is substantial documentation on the relationship between fiscal transparency and fiscal performance. These concepts are described in:
   - von Hagen, Jurgen, "Budgeting Procedures and Fiscal Performance in the EC," *Economic Papers 96*, (1992) DG - II, European Commission, Brussels.
   - Alt, James E. and Lassen, David, D., "Fiscal Transparency and Fiscal Policy Outcomes in OECD Countries," for presentation at the Economic Policy Research Unit - Network conference on Danish and International Economic Policy, University of Copenhagen, May 23-24, 2002.

7. Although balanced-budget rules can be constructive in controlling spending, rigid targets can be problematic. Studies of experiences in other jurisdictions suggest that with rigid rules come problematic consequences such as optimistic forecasts, inappropriate omissions and/or commissions, and the postponing of tough decisions. Please see:
   - Alesina, Alberto and Perotti, Roberto, "Fiscal Discipline and the Budget Process," Department of Economics, Harvard University, and Department of Economics, Columbia University, AEA Papers and Proceedings, May 1996—Balanced Budget Rules, Volume 86, number 2.

8. Managing debt can significantly limit the extent to which ongoing and new programs can be funded. The following article discusses the interaction between financial markets and fiscal discipline.
   - Millar, Jonathan, "The Effects of Budget Rules on Fiscal Performance and Macroeconomic Stabilization," *Working Paper 97-15*, June 1997, Financial Markets Department, Bank of Canada, page 8.

9. Australia and New Zealand have legislated requirements for debt to remain at prudent levels. The following provide overviews:
   - Maintaining Sustainable Government Finances, Treasury of Australia, 2002-2003.
     - http://www.budget.gov.au/2002-03/bp5/download/03_BP5Part1.pdf
   - Janssen, John, "New Zealand's Fiscal Policy Framework: Experience and Evolution," *Treasury Working Paper 01/25*, pages 7-9.

   The U.K. has created a similar rule, mandated by legislation.
   - *Analysing UK Fiscal Policy*, HM Treasury, November 1999.

  - http://www.hm-treasury.gov.uk/media/89A63/90.pdf

Ontario's accumulated deficit to GDP in 2004-05 is 25 per cent. While this is high relative to the average in the 1980s, it is lower than other governments in Canada, such as Quebec (TD Economics March 2004 provides an interprovincial comparison). Ontario's multi-year fiscal plan is consistent with a decreasing ratio in the future. The forecast for the accumulated deficit to GDP ratio is 22 per cent for 2007-08.

10. Experience in other jurisdictions indicates that balanced-budget rules can contribute to fiscal discipline. The following articles provide a discussion of their effectiveness.
    - "Fiscal Sustainability: The Contribution of Fiscal Rules," *Economic Outlook*, OECD, 2002, Chapter 4, number 72.
    - Kennedy, Suzanne and Robbins, Janine, "The Role of Fiscal Rules in Determining Fiscal Performance," *Department of Finance Working Paper* 2001-6.

    However, experience in other jurisdictions also indicates the need for flexibility and transparency in the design of fiscal rules. The following articles discuss the problems with strict adherence to narrow numerical targets:
    - Penner, Rudolf G., "Dealing with Uncertain Budget Forecasts," *Public Budgeting & Finance*, Spring 2002, page 14.
    - Kopits, George and Symansky, Steven, *"Fiscal Policy Rules," Occasional Paper 162*, International Monetary Fund, Washington, DC, 1998, pages 22-23.
    - Loxley, John, "Balanced Budget Legislation or Bad Budget Legislation," *Canadian Dimension*, December 1995/January 1996, Volume 29, number 6.

11. - *Analysing UK Fiscal Policy*, HM Treasury, November 1999.
        - http://www.hm-treasury.gov.uk/media/89A63/90.pdf

12. The development of a multi-year fiscal perspective is a key element of best practices developed by the OECD and International Monetary Fund.
    - OECD, "OECD Best Practices for Budget Transparency," May 2001
        - http://ww.olis.oecd.org/olis/2000doc.nsf/0/c125692700623b74c1256a4d005c23be/$FILE/JT00107731.DOC
    - International Monetary Fund, "Code of Good Practices on Fiscal Transparency," March 23, 2001.
        - http://www.imf.org/external/np/fad/trans/code.htm

    Many jurisdictions have adopted multi-year planning and budgeting in order to improve both fiscal transparency and fiscal policy outcomes. The following is an overview of practices in selected jurisdictions.

- Boex, Jameson, Martinez, Jorge and McNab, Robert, "Multi-Year Budgeting: A Review of International Practices and Lessons for Developing and Transitional Economies." *Public Budgeting and Finance*, Summer 2000.

13. • Ontario Financial Review Commission, *Raising the Bar: Enhanced Accountability to the People of Ontario*, 2001.

14. Examples of long-term reports include:
    - **Australia:** Treasury of the Commonwealth of Australia, Intergenerational Report 2002-2003. Canberra: Canprint Communications Pty Ltd., 2002.
        - http://www.budget.gov.au/2002-03/bp5/html/index.html
    - **New Zealand:** Minister of Finance, *Budget 2003: Budget Policy Statement*, December 19, 2002.
        - http://www.treasury.govt.nz/budgetpolicy/2003/annexes.asp
    - **U.K.:** HM Treasury, *The Economic and Fiscal Strategy Report, 2003*, Annex A: Illustrative Long-Term Fiscal Projections.
        - http://www.hm-treasury.gov.uk/media//CED06/bud04_annexa_241.pdf
    - **U.S.:** Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Year 2005-2014*, The Congress of the United States, January 2004.
        - ftp://ftp.cbo.gov/49xx/doc4985/01-26-BudgetOutlook-EntireReport.pdf

15. The OECD recommends the following types of reports and their timing to create a transparent budget cycle: Pre-Budget Report, Monthly Reports, Mid-Year Report, Year-End Report, Pre-Election Report, and Long-Term Report.
    - OECD, "OECD Best Practices for Budget Transparency," May 2001.

16. The following federal government study provides an overview:
    - *A Comparative Analysis of Government Performance Measurement Strategies*, Treasury Board of Canada Secretariat, Planning, Performance and Reporting Sector, November 2, 2000.

17. The OECD provides the following definitions relating to the concept of results:
    Inputs are the resources available to an organization or manager to achieve an output or outcome (e.g., money, staff).
    Outputs are the goods or services which government bodies provide for citizens, business and/or

other government bodies (e.g., number of birth certificates, number of operations). **Outcomes** are the impacts on, or the consequences for, the community from the outputs or activities of the government (e.g., better student achievement).

- *OECD Journal on Budgeting*, "Outcome-Focussed Management and Budgeting," Volume 1, Issue 4.

Results are best thought of as outputs or outcomes. In the last two decades, many countries have moved away from input-oriented processes towards output- and outcome-focused approaches. This has meant a change in management practices, from controlling costs to determining what deliverables are expected and what impact they will have. Clear, measurable results can enhance the accountability of partnerships in the public sector through performance agreements. The following documents provide an overview:

- General Expenditure Policy, *Outcome Focussed Management in the United Kingdom*, HM Treasury.
    - http://www.hm-treasury.gov.uk/media/1BE78/GEP_outcome%20focused%20managment.pdf
- Departmental Performance Table, Spending Reviews, HM Treasury, U.K.
    - http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_table.cfm
- Ministry of Health Services, Ministry of Health Planning, *Report on Health Authority Performance Agreements, 2002/03*, British Columbia.
    - http://www.healthservices.gov.bc.ca/socsec/pdf/haagreement0203.pdf
- Ontario Hospital Association, *Advancing Accountability Through Hospital Funding Reform, A Policy Framework to Promote Greater Access, Efficiency and Quality of Care*, April 2004.

18. In the traditional process, ministries or departments provide the budgeting office with their submission for the new year. The following notes that these submissions usually provide little or no review of the relevance and performance of the activities approved in the past.
    - Osborne, David and Hutchinson, Peter, *The Price of Government, Getting the Results We Need in an Age of Permanent Fiscal Crisis*, Basic Books, 2004.
19. **Australia:**
    - Chan, Matthew, Nizette, Mark, La Rance, Lisa, Broughton, Charles and Russel, Derek, *The OECD Journal on Budgeting*, Australia, Volume 1, Issue 4, 2002.

Washington State:

- *The Priorities of Government—Overview and History*, Office of Financial Management, Washington.
    - http://www.ofm.wa.gov
- Governor Gary Locke's Remarks, 2003 State of the State Address, January 14, 2003.
    - http://www.governor.wa.gov/speeches/speech-view.asp?SpeechSeq=378%20

20. Nolté, Judith, Maxwell, Judith and Mackinnon, Mary Pat, "Trust and Balance," *Citizens' Dialogue on the Ontario Budget Strategy 2004-2008*, Canadian Policy Research Networks, April 2004.
    - http://www.townhallontario.gov.on.ca

21. Canadian Comprehensive Auditing Foundation. *Reporting Principles—Taking Public Performance Reporting to a New Level*, 2002.

    In his latest report, the Provincial Auditor recommends that the government adopt the CCAF reporting principles.
    - *2003 Annual Report of the Office of the Provincial Auditor of Ontario*, Chapter 2, Towards Better Accountability, Office of the Provincial Auditor, 2003.

22. Task Force Report on Supply Chain Management, "Improving Supply Chain Management for Better Health Care," A Joint Initiative of the Ontario Hospital Association and Efficient Healthcare Consumer Response, November 2001.

23. Voluntary Hospitals of America, Inc., "VHA Delivers $1.13 Billion in Value for Members in 2003", April 29, 2004.
    - https://www.vha.com/news/releases/public/040429b.asp?DisplayPrintHeader=true

24. The NHS PASA is charged with modernizing and improving supply management across the NHS in the UK to help ensure that money is spent to best effect, as a result of the recognition that there were inconsistencies in purchasing performance. The NHS found that up to half of its total non-payroll spend (primarily purchasing) was not subject to rigorous, professional purchasing and value for money process. These issues are described in:
    - NHS Purchasing and Supply Agency, *The Agency's Role in Delivering eProcurement in the NHS*, February 2004, pages 2-4.
    - NHS Purchasing and Supply Agency, *Modernising Supply in the NHS*, April 2002, pages 3-18.

- NHS Purchasing and Supply Agency, *Corporate Plan 2003/6*, May 2003, pages 2-9.
- NHS Purchasing and Supply Agency, *Framework Document*, January 2001, Introduction, page 1.

25. The concept and uses of expenditure limits are described in the following:
    - Blondal, Jon, "Budgeting in Sweden," OECD 2001.
        - http://www1.oecd.org/puma/budget/pubs/Journalvol1no1.pdf
    - Spending and Planning Control, HM Treasury, U.K.
        - http://www.hm-treasury.gov.uk/spending_review/spend_plancontrol.cfm

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